Annual report 2019

Aegon Nederland N.V.

Aegon Nederland N.V.
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Contents

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Report of the Board of Directors

1.1. General information

Aegon Nederland N.V. ('Aegon Nederland'), incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV, The Hague with registration number KvK 27111251. Aegon Nederland's subsidiaries offer life insurance, pensions, savings and investment products, mortgages, accident and health insurance, general insurance, banking, asset management, pension administration and intermediary activities. Aegon Nederland operates from The Hague, Leeuwarden, Groningen, Zaandam, and Amsterdam.

Sales and distribution

Aegon Nederland's Life & Savings products are sold through Aegon Nederland 's intermediary and direct channels. Aegon Nederland offers its non-life insurance products primarily through direct and intermediary channels. In addition, sales and account management provides products for larger corporations in the Netherlands. Most of Aegon Nederland's pensions are sold through sales and account management and the intermediary channel. Customers include individuals, company and industry pension funds, and small, medium and large corporations. Aegon Nederland subsidiaries make Aegon Nederland one of the country's leading pension providers, providing a full range of pension products and services.

For the majority of company and industry customers, Aegon Nederland provides a full range of pension products and services. TKP Pensioen B.V. (TKP Pensioen) specializes in pension administration for company and industry pension funds. In addition, Stichting Algemeen Pensioenfonds (STAP) (administered by TKP Pensioen) is a pension pooling vehicle independent from Aegon Nederland that enables separate financial administration for multiple pension plans from multiple employers.

1.2. Legal company and group structure

Aegon Nederland is a wholly-owned subsidiary of Aegon Europe Holding B.V. ('Aegon Europe Holding'), The Hague. Aegon N.V., which is a listed entity, is the ultimate parent company of Aegon Nederland. For further information we refer to note 41 'Group Companies' in the consolidated financial statements.

Optas Pensioenen N.V. (disappearing entity) and Aegon Levensverzekering N.V. (acquiring entity) have legally merged on April 1, 2019 with an effective date for IFRS reporting of January 1, 2019. Until April 1, 2019 Optas Pensioenen was exemptd from Dutch corporate income tax, and since then has become part of the Dutch tax group of Aegon N.V.. As of January 1, 2019 Aegon PPI B.V. and Cappital Premiepensioeninstelling B.V. are merged into a single entity named "Aegon Cappital B.V." (hereafter 'Aegon Cappital') which will use the administration platform of TKP Pensioen.

1.3. Strategy, purpose and mission statement (Future Fit)

The goal of the Future Fit Strategy of Aegon Nederland is to become the "customer-driven company of the future". The refocused strategy centers around Aegon Nederland's mission to "enable people to make conscious decisions about their financial future" ("wij stellen mensen in staat zelf, bewust keuzes te maken voor hun financiële toekomst"). This means doing the right things in the best possible way in the interests of our customers.

Aegon Nederland operates in an ever changing environment due to customer and stakeholder demands, as well as market developments. By providing clear information ("Klantbelang Centraal" or Customer Centricity) and easily comprehensible products and services, Aegon Nederland empowers people to make better financial decisions. Over the last few years, Aegon Nederland's strategy has been enhanced and refined. Changes to the strategy have been made to reflect developments inside as well as outside of the company. We have consistently proven ourselves to adapt to environmental changes by transforming our business, further strengthening our capital base and reducing costs. We are well prepared to meet the rapidly changing demands of (aging) populations in an increasingly affluent world.

In order to achieve this acceleration, changes to our organization and governance structure were required; further transforming the organization from being product-driven towards being customer-driven. By doing so, the organizational structure is now more aligned to our business strategy and consequently, a more efficient and effective execution of our strategy can be expected. In February 2019 Aegon Nederland introduced three strategic categories; **Drive for Growth, Scale-up for the Future, and Manage for Value**. Aegon Nederland has made progress in the execution of Aegon's strategy by driving efficiencies and allocating capital to those activities with the best growth prospects. For further information we refer to the following table.

	Strategic categories		
	Manage for Value	Drive for Growth	Scale-up for the Future
Principal entities		**Product lines**	
Life Aegon Levensverzekering N.V. Aegon Spaarkas N.V.	• Pension DB and DC insurance • Individual Life Insurance Service Book • Immediate life annuities	• Immediate pension fixed and variable annuities	• Term Life
Non-Life Aegon Schadeverzekering N.V.			• Non-Life Property & Casualty • Non-Life Accident & Health
Banking Aegon Bank N.V. (Knab)			• Knab / Bank • Retail Investment
Service business TKP Pensioen B.V. Robidus Groep B.V. Aegon Cappital B.V. Aegon Hypotheken B.V.		• Pension Service providing • Disability services • Asset Gathering • Asset Origination	

Agile Way of Working
In 2019 Aegon Nederland continued its journey towards company-wide agility. Aegon has been in active use of the agile working method since 2012 and in the past years has made several steps towards team maturity using the SAFE methodology. In 2019 we embarked on a program to improve our corporate agility to drive productivity, time to market, quality and customer and employee satisfaction. As a result Aegon Nederland created a new organization structure & governance based on end-to-end business responsibilities organized in value streams and dismantled its retail and wholesale management structure. The processes are designed to find the optimal balance between 'client value, time criticality and risk reduction' and align 'strategy with execution'. This ensures a way of working in which Quality by Design is embedded.

Vivat
In 2019 Aegon Nederland actively pursued - in collaboration with a private equity partner - a possible acquisition of Vivat. Key rationale for the potential acquisition were substantial cost and capital synergies. In addition, it offered the opportunity to strengthen Aegon Nederland's market position, especially in the non-life and term-life segments. Despite submitting an attractive offer, we were outbid in the final round.

1.4. Composition of the Board of Directors and gender diversity

As of July 1, 2019, Mrs. I.M.A. de Swart resigned from the Board of Directors to pursue her career outside of Aegon. After almost 12 years with Aegon Nederland, Chief Financial Officer (CFO) Mr. R. Zomer has left Aegon per April 1, 2020. He will move on to new opportunities and will make room for others in a smaller Management Team of Aegon Nederland. He will be succeeded by Mr. B. Magid, who will stay responsible for the CIO portfolio in his new job as CFO. CTO Mrs. A Schlichting will combine her current role with that of Transformation Officer. She will also become part of Aegon Nederlands' Statutory Board of Directors as per April 1, 2020. Finally, Mr. W. Hekstra was appointed as COO for Aegon Nederland. He already was responsible for Aegon Wholesale. When Mrs. I.M.A. de Swart left, he temporarily took on her responsibility for Aegon Retail too. Now it has been decided that this temporary solution will be permanent.

The composition of the Board of Directors as of April 1, 2020 will consist out of the following five members, i.e. Mr. M.J. Edixhoven (chair), Mrs. A Schlichting, Mr. B. Magid, Mr. W.A. Hekstra and Mr. W. Horstmann.

Enhancing gender diversity in the Board of Directors and Supervisory Board is an important objective for Aegon Nederland. Selection and appointment is based on expertise, skills and relevant experience. The Supervisory Board also takes gender diversity into consideration in light of its goal to have a balanced composition in the Board of Directors. The Supervisory Board is aware that the current composition of the Board of Directors does not meet the 'balanced composition' requirement under Dutch law (at least 30% of the seats should be filled by women and at least 30% by men). When identifying candidates for open positions, the Board of Directors actively searches for suitable female candidates with the help of external recruitment firms. While this has had a positive effect, the requirement has not yet been met.

Aegon Nederland's HR department is currently working on creating a new role; consultant Inclusion & Diversity. Next to focusing on actively searching for suitable female candidates, this role will aim to hire more people with an migrant background and people with a disadvantage in the labor market. For the latest, Aegon Nederland already hired an employee who will create jobs for this target group.

1.5. Employees

The average number of employees is 3,582, including 211 agents (2018: 3,326, including 177 agents), all working in the Netherlands. The expected developments in the total employees depends on the company's strategic choices made.

To remain attractive, relevant and Future Fit for our customers, and to make room for growth and innovation, Aegon Nederland needs to become a more efficient company. On March 2, 2020 MT-NL submitted two requests for advice to the Central Works Council (COR). With these two requests for advice, Aegon Nederland is reducing costs and make room for investment in new digital, data-driven activities for five million private and business customers. In addition, Aegon Nederland is organizing to better comply with rapidly increasing legislation and regulations.

1.6. Key elements of policy

During 2019, the Board of Directors discussed several important subjects and developments, regularly in the presence of the Solvency II key function holders and other senior management. The financial results, including Capitalization considerations and ALM (Asset Liability Management): strategic asset allocation were part of discussion of the Board of Directors. Also topics such as the further execution (and monitoring) of key strategic change initiatives, managing the business portfolio within the 3 strategic buckets (i.e Manage for Value, Drive for growth and scale-up for the future), Agile transition and transformation of the Aegon Nederland organization, cost and capital management, financial and non-financial controls, people management, responsible business, M&A opportunities and impactful laws and regulations.

1.7. Remuneration policy

The remuneration policy of Aegon Nederland is designed in line with the applicable national and international regulations including the Aegon Group Global Remuneration Framework (AGGRF) drawn up by Aegon N.V., the Law on Remuneration Policies for Financial Institutions (Wet beloningsbeleid financiële ondernemingen, or 'Wbfo') as included in the Dutch Financial Supervision Act (Wet Financieel Toezicht, or 'Wft') and the remuneration policy from Solvency II. Further the remuneration policy of Aegon Bank, a subsidiary of Aegon Nederland, is in line with the Regulation on Sound Remuneration Policies (Regeling beheerst beloningsbeleid as issued by the Dutch Central Bank (DNB)) and remuneration requirements from the Capital Requirements

Directive IV (Richtlijn kapitaalvereisten - CRD IV). In addition the policy is in line with various remuneration guidance, technical requirements and standards from the European Banking Authority applicable to banks within the European Economic Area (EEA) as declared by European Commission (EC). For the purpose of the application of the applicable national and international regulations Aegon Bank is regarded as a local or less significant financial institution.

The remuneration policy of Aegon Nederland applies to all Aegon employees working for Aegon Nederland or its subsidiaries. The remuneration policy also applies to employees assigned to entities located in the Netherlands other than Aegon Nederland or its subsidiaries and employees under the direction and supervision of Aegon Nederland that perform activities for Aegon or its clients through outsourcing or otherwise. Entities may apply for an exception on the Aegon Nederland remuneration policy. The exceptions may not be contrary to the philosophy and principles of the AGGRF. The remuneration policy of Aegon Nederland is reviewed on a annual basis.

Equal pay for men and women
In 2018, Aegon and trade unions reached a new collective labour agreement for the insurers' employees. It includes explicit agreements about equal pay for men and women performing the same function. According to union FNV, this is the first collective bargaining agreement in the Netherlands to address this issue explicitly.
As part of the collective bargaining agreement, Aegon investigated the current remuneration of its male and female employees with the conclusion that on average there are no differences in the salary of men and women performing the same function.

Remuneration and scope
Remuneration may include both financial and non-financial compensation provided by the company either directly or indirectly. Financial compensations consists of among other things cash, shares, employer's contribution, pension schemes. Non-financial compensation consists of among other things use of a car lease, private use of a mobile phone and computer. Other non-financial secondary benefits may include the work environment, the performance management (annual) HR-cycle, training opportunities and career development.

Variable compensation
The directives for the variable remuneration in the Aegon Nederland remuneration policy are adopted one-on-one from the AGGRF. Only members of the Management Team of Aegon Nederland are eligible for variable remuneration. As of April 1, 2020 the Management Team of Aegon Nederland consists of the statutory board members and mrs. Roth (General Counsel/Director Legal Affairs) and mr. Parren (Chief People Officer). The remaining employees assigned to Aegon Nederland and or working under the direction and supervision of Aegon Nederland or its subsidiaries are not eligible for variable remuneration.

Employees employed by other Aegon entities under the direction and supervision of Aegon Nederland that perform activities for Aegon or its clients through outsourcing or otherwise may under the remuneration policy of their own entity be eligible for variable remuneration. This variable remuneration is also subject to the directives for variable remuneration in the remuneration policy of Aegon Nederland, with the exception on activities performed under other sectoral legislation.

Application of the remuneration policy
The remuneration policy (including variable remuneration) and its implementation was discussed in meetings held by the Supervisory Board on several occasions during 2019. The Supervisory Board approved the 2019 variable remuneration targets for Material Risk Takers (MRT) within the framework set out in the AGGRF. It also approved payment of the variable remuneration to MRT relating to prior years that vested in 2019. This remuneration was within Aegon Nederland’s remuneration policy. No retention payments were made. There were no welcome and exit arrangements granted in 2019 outside of the policy. The total income of the Board of Directors in 2019 was in line with the remuneration policy and the total variable remuneration of senior management (including members of the statutory board) did not exceed 20% of fixed income for the whole of Aegon Nederland. The total amount of variable compensation paid out in 2019 was EUR 1.3 million. No individuals received a total annual compensation equal to or higher than EUR 1 million. This malus clause on variable remuneration granted conditionally to MRT was not applied nor was there a claw back of variable remuneration. For information regarding the variable compensation of the Board of Directors please refer to note 33 ‘Commission and expenses’ in the consolidated financial statements.

1.8. Regulation and supervision

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The supervision of financial institutions pursuant to the Wft rests with DNB and the Authority for the Financial Markets (‘AFM’).

DNB is responsible for prudential supervision. The AFM supervises the conduct of business of financial institutions and the conduct of business on financial markets. The aim of DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector. With regard to banks, DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank (‘ECB’). The AFM's conduct of business supervision focuses on ensuring orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to customers.

The Dutch Data Protection Authority (Dutch DPA) supervises processing of personal data in order to ensure compliance with laws that regulate the use of personal data. The tasks and powers of the Dutch DPA are described in the General Data Protection Regulation (GDPR), supplemented by the Dutch Implementation Act of the GDPR.

1.9. Low interest rate environment

During 2019 the interest rates further declined, leading to Aegon Nederland’s income statement movements being largely driven by spread and interest rate movements. Furthermore, these spread and interest movements triggered the Liability Adequacy Test (LAT) Headroom deficit, leading to significant losses in the income statement. In 2018 the LAT deficit was absorbed by the revaluation reserve through shadow accounting. However, as the available unrealized gains have been fully absorbed by the current LAT deficit, future negative credit movements and actuarial assumption changes will impact earnings going forward. Interest rate movements will also impact earnings, but this is largely offset by hedged positions (a.o. interest derivatives). Finally, low interest rates puts pressure on normalized capital generation, as the UFR (Ultimate Forward Rate) drag on capital generation increases.

1.10. Business developments

Aegon Levensverzekering
Aegon Levensverzekering does not accept new group Defined Contribution (DC)-plans. New DC plans are placed in Aegon Cappital, which is part of the business line Wholesale (Zakelijk). Despite the decreasing popularity, Aegon Levensverzekering is still prepared for new insured Defined Benefit (DB) schemes. Nevertheless, more and more employers with a DB-plan opt for a different pension provider within Aegon on termination of their group pension contract with Aegon Levensverzekering, for example at Aegon Cappital. The transfer of the administration of insured DC-policies to Aegon's subsidiary TKP Pensioen in Groningen will be continued in 2020. Together with the administration of Aegon Cappital, all DC schemes of Aegon Nederland will be then administered at TKP Pensioen. In 2019 the preparations for the transfer of the insured DB policies started. s a result of that the first DB contracts will be administered at TKP Pensioen in April, 2020.

Aegon Levensverzekering is doing well in the market of immediate pension annuities out of DC-capital on retirement age. In a very competitive market, Aegon Levensverzekering aims for quality over price and has continued their pricing discipline, thus achieving a positive gross Value of New Business. Due to the low market interest rate and the low coverage ratio of pension funds, there were only limited substantial opportunities for value transfers of pension rights (‘buy-out’ deals) in 2019. Aegon Levensverzekering made a buy-out deal for EUR 245 million in 2019.

The AFM has performed market research on insurers in relation to variable pay out pension products, and specifically the ‘Uitkerend Beleggingspensioen’ (UBP) product. AFM had indicated that a fine will be imposed on Aegon Nederland. Aegon Nederland is contesting this. This file will continue to be open.

The fiscal retirement age for pensions schemes (second pillar) in the Netherlands has been increased from 67 to 68 years on January 1, 2018. The AOW date (first pillar) increased to 66 years in 2018 and will increase further to 67 years in 2025.

The social partners, the Sociaal-Economische Raad (Social-Economic Council) and the government have agreed upon a new pension system for the Netherlands. The agreement is not yet final.

Life (individual)
In line with 2018 the year 2019 showed a continued decline in the market for endowment products and a further decrease in our in-force portfolio. Hardly any new business was generated in this market segment. The trend towards bank-savings products continued unaltered. The active markets for more traditional products such as Term-Life insurances, have shown a decrease in 2019, as a result of several market developments. The stringent monitoring of cost levels, which has been in place over the last few years, has led to a strategic re-evaluation of the Term-Life and (Deferred) Annuity propositions. This has led to the termination of new business offerings for Individual Life as per the second quarter of 2020. Aegon Levensverzekering manages the existing life portfolio as efficiently as possible and is optimizing its portfolio from both the customers’ and Aegon Nederland’s perspective. The decreasing portfolio requires stringent control of costs which should reflect the (downward) movements in the portfolio. In order to keep a firm grip on the cost of the decreasing portfolio, Aegon Nederland has started investigating a business process outsourcing (BPO) for the Individual Life service book. On March 13, 2020 a strong and robust partner company has been found for the BPO..

Working closely with Aegon Nederland’s banking business and the BPO partner, Aegon Nederland will continue to offer customers integrated solutions and services fit to the customer demands.

Aegon Spaarkas
The portfolio of this entity, which sold a specific kind of unit-linked products, has been closed for a few years already. Hence, no new products are introduced by Aegon Spaarkas. Similar to the Life portfolio this portfolio is steadily decreasing in size. Aegon Spaarkas manages this portfolio as efficiently as possible and optimizes it from the customers’ and several Aegon’s perspectives. Refer also to the Koersplan and unit-linked products sections in this report.

Aegon Schadeverzekering

Consumer P&C (Property & Casualty)
In 2019, the trends (changing consumer behavior, development of online direct, focus on risk and control) of recent years in the non-life insurance market further developed. The profitability of the non-life consumer insurance market is still under pressure as a result of high competition. Despite this Aegon Schadeverzekering saw a clear improvement of the results during 2019. Aegon Schadeverzekering has taken the step from structurally loss-making to an in-control insurer with a healthy loss ratio. Based on in-depth insight, strong and sometimes difficult measures have been taken to improve the results of the portfolio. The portfolio has been rationalized, the pricing and products have been developed and refined and the distribution strategy has been, reorganized and sharpened. In the same period the T-NPS (Transactional Net Promotor Score) improved substantially.

Aegon Schadeverzekering has achieved a substantial return improvement and has improved its starting position considerably. The focus for the coming years is on achieving growth / scale (decrease costs per policy and more data) and the use of smart technology (by using advanced analytics). Both are conditional for a sustainable and competitive business model. Furthermore we retain strong focus on being “in control".

As from third quarter 2019, the servicing of the legal assistance (‘rechtsbijstand’) portfolio of 65.000 policies has been reinsured with ARAG, after a long standing relationship with the previous provider SRK (‘Stichting Schaderegelingskantoor voor Rechtsbijstandverzekering’) was ended.

Income (Accident & Health) market
Aegon Schadeverzekering continuously looks for opportunities and cooperation with service providers to further improve support to employers and entrepreneurs in dealing with absenteeism and disability in the best possible way and to reduce the number and volume of claims. The acquisition of the Robidus group shows that Aegon Schadeverzekering wants to further invest in sustainable employability, which becomes a more and more important theme in an increasing market of labor shortage and a continuation of increasing the retirement age.

In the Income market, Aegon Schadeverzekering invested in a new proposition for absence especially for SME-companies: the MKB verzuimplan. This new proposition is a standardized and STP (Straight To Process) solution and is very easy in use for our customers. Aegon has received the quality mark ‘MKB Verzuim-ontzorg-verzekering’ for the Aegon MKB Verzuimplan. This is a new introduced insurance product including health and safety services, especially for SME-companies. The quality mark is issued by MKB-Nederland, VNO-NCW, LTO Nederland and the Dutch Association of insurers and is a direct consequence of the covenant with minister Koolmees of SZW end 2018.

Finally, cost efficiency and the optimization of the chain from customer to provider are still important drivers in the non-life market. For the years to come, Aegon Schadeverzekering will continue its investments and specifically will continue to convert towards a digitalized all round serviceprovider for absence and disability.

Aegon Hypotheken
Mortgage production in the Netherlands in 2019 seems to have stabilized in 2019. Lower supply, higher house prices and stricter lending conditions may constrain further growth of the mortgage market. Based on the same criteria recent years of mortgage registrations by Kadaster, the mortgage production slightly decreased 1% to EUR 104 billion (2018: EUR 106 billion). The low mortgage rates, increased consumer confidence and high rentals on the housing market are important factors that generate persistent demand. The total number of mortgages originated decreased by 6% to 326,000. This decline in number of mortgages originated is offset by an increase in the average mortgage amount to EUR 320,000 (2018: EUR 306,000).

Because of low interest rates the largest growth in mortgage production in 2019 was realized from refinancing. As higher house prices and shortage of supply of suitable houses hinder potential entrants, the group of starters in the market shows decline. The aging population will cause major challenges regarding sustainability, appropriate housing and living at home in combination with care. Financial advisers are increasingly confronted with questions about surplus value, home modification, donations and inheritance law.

In 2019 house prices have risen at an annual rate of 7%. In the development of housing prices there are clear differences between different housing types and regions with popular urban areas showing stronger increases than rural areas. However, the increase in house prices is more wide-spread over the country. In certain, urban areas there is shortage in cheaper and middle class residences.

There are no significant changes in the top 10 lenders in the Dutch mortgage market. The top 3 remains Rabobank, ABN Amro and ING. Aegon now has fifth position after Volksbank; the Aegon market share in 2019 decreased to 5.3% (7.6%).

Aegon won the "Gouden Spreekbuis" awards for the Best Mortgage Lender and Best Mortgage Broker, recognized for its exceptional service toward both consumers and intermediaries.

On July 9, 2019, Aegon Hypotheken closed a transaction under the Dutch SAECURE program to sell Class A mortgage backed securities (RMBS). ‘SAECURE 18 NHG’ consists of EUR 550 million of class A notes with an expected weighted average life of 4.76 years and a coupon of 3 month Euribor plus 40bps.

Loan to Value (LTV) approach customers
With implementation of its new policy on LTV class migration, Aegon Hypotheken has taken an important step on the field of client interest. As of July 1, 2019 the LTV class of redeeming mortgages is automatically adjusted for the majority of the portfolio when (extra) redemption and/or increase of the market value of the property places the mortgage in a lower LTV class. The interest the customer pays is adjusted accordingly. With respect to mortgages with an investment component the LTV migration will take place in 2020.

<u>Aegon Bank N.V.</u>
Aegon Bank operates within the Dutch retail banking landscape via two labels: Aegon Bank; and Knab. Via these labels, various banking products are being offered to its clients.

Knab
Introduced in 2012 as one of the first fully online / digital banks in the Netherlands operating under the Aegon Bank banking license. Regardless of operating under the Aegon Bank license, Knab is in the market being perceived as an autonomous bank with its own branding, marketing and culture.and has since then grown to a customer base of more than 250,000 customers. Knab aims to be the most customer-oriented financial platform in the Netherlands, by informing customers about their personal financial situation and enabling them to achieve their financial goals. It’s therefore Knab’s mission to help people manage their money matters now and in the future. This reflects the core of Aegon's purpose. As an online bank, Knab offers payment accounts, savings and a basic investment product.

Aegon Bank
The Aegon Bank label focuses on customers whose income and wealth is in the middle-market, in line with Aegon Nederland’s target group. Aegon Bank offers simple and high-quality products. These include both savings products focused on security, and investment products focused on a suitable risk/return profile that fits the customer's need and risk appetite. With these products Aegon Bank reinforces the Aegon Netherlands wide pension offering. Aegon Bank's activities mainly focus on 'Banksparen' products'. 'Banksparen' is a tax-deferred savings product in which amounts are deposited in a 'locked' bank account. The amount saved is available after a certain period of time for specific purposes such as for a supplementary pension or paying off a mortgage. This product is predominantly sold via independent financial advisors who remain a very important distribution channel.

Aegon Bank achieved good commercial and financial results. Performance indicators such as Operational Results, Return on Equity and Cost to Income Ratio have developed positively over the years.

Aegon Bank’s strategy, the liquidity ratio as well as the solvency ratio were maintained at prudent levels and the solvency ratio remained above the target level throughout the year. Stress tests show that we continue to have a stable and solvent financial position with substantial buffers to absorb any extreme but still plausible shocks in the financial markets.

In June 2019, Aegon Bank priced its inaugural EUR 500 million 5 year Senior Non-Preferred notes with a yield of 0.729%. The deal was 5 times oversubscribed and successfully placed with more than 180 institutional investors. The issuance is in line with the growth ambition of Aegon Bank and will result in a more diversified funding mix. Aegon classifies the securities as operational leverage.

One brand
During 2019, it was decided to integrate Aegon Bank and Knab to combine the strengths of the two banks in online/digital banking. Knab will be the single banking brand for Aegon in the Netherlands. By integrating both operations and rationalizing product offerings costs will be reduced, operations will be more efficient and governance unified and simplified. As such, Knab discontinued its mortgage and insurance platform activities during the course of 2019 and ceased all mediation and advice activities. The coming period will be used to

migrate the Aegon bank label products and customers towards the Knab label. Aegon Bank N.V. will continue to reinforce the Aegon Netherlands wide pension offering with its banking (savings, bank savings and investments) products, but under the Knab brand.

By joining forces the bank will service more than 650.000 customers. It will offer daily banking such as payment services, financial planning tools and alerts. Furthermore, it will offer third and fourth pillar banking products for future income with savings and investments products (incl. tax friendly solutions), with a focus on long-term wealth accumulation. The main focus groups of Knab are retail and self-employed/small business. Furthermore, it will continue to support the intermediary channel.

As part of the integration, the two management teams and the organizations of Aegon Bank and Knab were merged during 2019 to establish integrated steering and enhance control. Amsterdam will be the main location of the bank. As such, the majority of banking activities moved from Den Haag to Amsterdam in 2019; limited activities remain in Den Haag. Knab started with the preparations of the migration of customers and products from the Aegon brand towards the Knab brand.

Knab Advies & Bemiddeling N.V.
With the integration of the Aegon Bank and Knab, the strategic choice has been made to phase out the non-bank (i.e. adviser and broker) activities in Knab Advies en Bemiddeling N.V. (KAB), and therewith stop the online advice and comparison of car-insurance and home-related insurances, as well as the mortgage broker business, effective from October 1, 2019. The KAB entity will be liquidated as soon as the remaining activities are sold to third parties or transferred to other Aegon entities.

Aegon Cappital
In 2011 Aegon Nederland started to operate in the PPI market with two different PPI-concepts; Aegon PPI focused mainly on smaller enterprises with its ‘Pensioenabonnement’ (subscription proposition) and Cappital focused on the corporate market where it enjoyed a strong position and a good reputation. Based on transparent and accessible DC pension schemes they responded to employers’ needs regarding their responsibility towards employees. Many new customers, large and small, and intermediaries have discovered these modern pension propositions.

During 2018 the two PPI’s decided to merge in order to realize desired economies of scale, improve their digital services and provide customers with more choices. Approval for the merger was obtained in 2018 from DNB andas of January 1, 2019 Aegon PPI and Cappital merged into a single entity named “Aegon Cappital B.V.” (Aegon Cappital), which uses the administration platform of TKP Pensioen.

For 2020, Aegon Cappital expects further growth in terms of new customers and incoming transfer of pension rights of existing clients. Aegon Cappital will continuously improve the subscription proposition product with the inputs from our customers, participants and advisors. In addition further improvements to the portals for the employer, participant and advisor are planned to give each of these stakeholders more relevant and up-to-date (pension) information.

TKP Pensioen
TKP Pensioen administers pension rights for pension funds and premium pension institutions. At the end of 2019 there were 26 customers that had entrusted this important work to TKP Pensioen. Their clients - 3.8 million participants – rely on TKP Pensioen for correct and timely pension payments and clear and accessible pension information and communication. Central to TKP Pensioen 's strategy is a focus on simplicity for customers, participants and for employers. TKP Pensioen wants to offer participants and employers better service and more convenience and - to be a strategic partner for pension funds - with a reliable and flexible pension administration that is flawless. TKP Pensioen is working towards a more customer-oriented and agile organization in the coming years with the program ‘TKP Connect’.

The specialists at TKP Pensioen perform work for 20 pension funds, 13 social funds, 1 general pension fund and 1 premium pension institution. On behalf of these customers TKP Pensioen has payed-out approximately EUR 2.5 billion in pensions in 2019. TKP Pensioen supports pension providers in achieving their strategic objectives and does this with a reliable and flexible pension administration at low costs. And the ambition goes further. TKP Pensioen wants to create the best digital pension platform where it is easier for participants to make responsible choices for a financially healthy future.

In 2020 TKP Pensioen will continue to improve on its change-strategy. TKP Pensioen invests heavily in innovation and digitization and continues to develop a state-of-the-art pension platform, based on the promise of 'Pension made easy'. Late December 2019 the Dutch pension fund for the retail sector (Detailhandel) announced it will replace TKP Pensioen as pension provider with Capgemini in 2021. Detailhandel has approximately 1.2 million participants. In 2020 the turnover will increase to approximately EUR 93 million and an increase in the number of participants in the pension administration to approximately 4.0 million participants is expected.

Nedasco

Nedasco is a serviceprovider providing intermediary-services in the field of assurances. Nedasco provides these intermediaries with a quick and easy access to acknowledged insurance companies. Nedasco has a strong focus on the business market and aims to be the best partner for the intermediairies in this field. Nedasco wants to achieve: more purchasing power, less costs per policy, more opportunities for growth and more presence in the south of the Netherlands.

Robidus group

Following the acquisition of Robijn Participaties ('Robidus group') during 2018, Aegon Nederland finalized the merger between Robijn Participaties and Salus Holding as of January 2, 2019. The Robidus group offers integrated solutions including BPO Services & Consulting, intermediation of insurances and specialized software applications in the field of social security. During 2019 the Robidus group continued to create the best employability platform within the Netherlands. Through a proven software platform, the Robidus group has built client propositions which deliver tangible benefits for its clients, resulting in considerable cost savings (by mitigating the risks of absenteeism and work disability) and improved productivity (by a strong focus on employability). This integrated service offering is unique in the Dutch social security market.

GDPR

In 2019, seven data breaches occurred within Aegon Nederland. Follow up has been given including notification to the Dutch Data Protection Authority (Autoriteit Persoonsgegevens). These incidents have been reported and discussed in the Monthly Risk Event Committee and Quarterly Risk and Audit Committees (local units and MT-NL).

A report was issued by the Internal audit department in September 2019 on the status of GDPR implementation. The outcome of this report was unsatisfactory because the approach used thus far allows for insufficient management oversight and consequently, a lack of demonstrable control over GDPR compliance and a lack of a structured approach. Aegon Nederland has plans in place to address these findings with a high priority, including the recruitment of new staff and a manager with specialist knowledge and is currently executing on those plans.

In addition, non-compliance matters, mainly relating to the pensions and mortgages business, occurred within Aegon Nederland in 2019. Management has taken appropriate action to remediate the matters noted and to improve processes, procedures and controls where needed.

IT

Aegon Nederland pays a lot of attention to digitalizing and innovation. An important innovation, which was rewarded with a Celent Model Insurer Award in 2019, is the decision to decrease the abundance of internal rules for IT-solutions to a set of eight clear principles. The IT Architecture team introduced the so-called 'non-negotiables', a minimal set with guidelines on which cannot be negotiated when buying or building software.

Aegon Nederland also further improved the central Data Lake to decouple front and back end. This increases the speed of development and innovations. The different customer journey initiatives made possible this way increased the NPS (Net Promotor Score). For SII and IFRS17 a closed model run environment was built. In 2019 the agile way of working was further implemented in all value streams. Staff functions will follow in 2020.

1.11. Risk Management

For information regarding risk management please refer note 4 Risk Management in the consolidated financial statements.

1.12. Brexit

On January 31, 2020, the United Kingdom (UK) left the European Union (EU). The UK has until the end of 2020 to negotiate a trade deal with the EU and prevent a Hard Brexit. A Hard Brexit will have consequences for the derivatives contracts Aegon Nederland holds with UK counterparties as they may lose their eligibility under European regulation. In the last few years, Aegon Nederland has prepared for this possibility and has worked towards replacing its UK counterparties. For bilateral derivatives with a UK counterparty, contracts have been set up to replace the counterparty by a continental (non UK) counterparty of the same mother company. For centrally cleared derivatives, Aegon Nederland has gradually moved from LCH in London to Eurex in Frankfurt. Currently, around 60 percent of all swap interest rate sensitivity of the Aegon Nederland insurance entities is in Frankfurt. The situation is carefully monitored by the Risk & Capital Committee. Based on new information about Brexit, the future eligibility of LCH and the liquidity at the different venues, the decision will be made whether the exposure at Eurex is expanded further.

1.13. IBOR transition

The future of IBORs (Interbank Offered Rates) such as Euribor, Eonia and LIBOR has been a major topic on the global agenda since the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of leading interest rate benchmarks in 2013. The FSB proposed new standards to reform interest rate benchmarks and the use of transaction-based input data instead of non-transactional/panel input data. In the EU this is adopted in the new Benchmark Regulation (BMR) which stipulates that from January 2020 only BMR compliant benchmarks may be used within the EU.

Aegon Nederland recognizes that IBOR transitions potentially have implications for all reporting units, including our insurance, asset management and banking activities. Despite current uncertainties on how the transition from IBORs to alternative benchmarks will be managed, it is widely acknowledged that IBOR benchmarks impact financial products and contracts, including a.o. derivatives, corporate bonds, structured debt products, deposits and mortgages.

The impact of the IBOR transition on the business- and operating models are described in transition plans and include among others project solutions and actions, timelines and ownership to ensure timely preparation and implementation.

1.14. IFRS 17 & IFRS 9

The International Accounting Standards Board (IASB) issued IFRS 17 for Insurance Contracts in May 2017, effective for annual periods beginning on or after January 1, 2021, which is not yet endorsed by the European Union. In November 2018 the IASB decided to postpone the effective date for IFRS 17 with one year which means insurers will be required to apply IFRS for annual periods beginning on or after January 1, 2022. In order to keep the link with IFRS 9 the IASB also decided to allow insurance companies to defer IFRS 9 by an extra year.

Aegon Nederland has started an implementation project in 2018, which will continue during the period 2019 - 2021. The exact impact of IFRS 17 is not yet clear, however an initial impact assessment resulted in the expectation that it may have a material impact on shareholders' equity, income and/or other comprehensive income and disclosures. Aegon Nederland is combining the implementation of IFRS17 with the Finance Transformation Program, in which Aegon Nederland optimizes underlying processes and systems in order to gain efficiency. Good progress has been made in 2019 and the program is on track for preparing to meet the start of the dry run of the project during second half of 2020.

1.15. Asset and Liability Management and Financial instruments

In order to execute on Aegon Nederland’s goal to enable clients to achieve a lifetime of financial security, we offer products that absorb risks on behalf of our clients, such as market and underwriting risks. These risks need to be managed actively. It is unlikely that the risks which we take on from our clients, always automatically lead to our preferred risk profile and therefore we have a risk strategy in place. Aegon Nederland keeps the preferred risks in light of the targeted risk profile, but mitigates the remaining risks by, for example, hedging the risks. Our use of derivatives relates mostly to the latter. For each portfolio containing derivatives, we have set up detailed guidelines on the scope of instruments and the purpose of the derivatives.

Within its total Asset and Liability Management (ALM) framework, Aegon Nederland makes use of predominantly fixed income instruments for matching its liabilities. These are, to a large extent, high quality sovereign and corporate bonds and loans. In addition, a sizeable portfolio of residential mortgages has been built up to match liabilities. Risk mitigating techniques are used in addition to these instruments in order to hedge the guarantees embedded in some of our products and to optimize our ALM. This can be done through directly targeting specific risks, such as interest rate risk via e.g. interest rate swaps or longevity risk via a longevity swap. For more complex risk exposures, we use a combination of options, total return swaps and variance swaps.

Aegon Nederland sees derivatives as a suitable instrument to use in its ALM processes. The derivatives market is a highly regulated market. Any counterparty risks embedded in such transactions are contained with strong collateral processes that Aegon Nederland has put in place for all of its derivatives, through the use of high quality collateral. The advent of central clearing for parts of the derivatives markets has increased the collateral requirements and reduced counterparty risk. Liquidity risk, which is the direct result of the collateral processes, needs to be managed carefully. Due to market movements, our collateral position may change rapidly and in order not to breach any collateral agreements, Aegon Nederland has to ensure availability of sufficient high quality collateral at all times in order to comply with collateral calls from our counterparties. Our liquidity stress testing is set up to monitor this need. Operational risk is another key risk, considering derivatives are specialized instruments that require expertise as well as a specific (IT) infrastructure in order to be managed properly. Furthermore, as recent developments have shown regulatory risk as a category within operational risk, it needs constant monitoring. Our automated processes regarding real-time monitoring, automated controls and integrated reporting reduce operational risks and enable us to comply with increasing demands from regulations.

Aegon Nederland's Risk & Capital Committee, which meets at least once a month, determines and monitors the capital position, the balance sheet as well as the market value income statement. The focus of these meetings is, among other activities, to ensure an optimal strategic asset allocation, to decide on hedging strategies to reduce interest rate and equity risks, to manage and possibly hedge actuarial risks, and to decide on the need for securitizations of residential mortgage portfolios in order to improve the liquidity and funding position of Aegon Nederland.

1.16. Pending litigation portfolio and product-related issues

Unit-linked products

Generally speaking, there is still media, political and regulatory attention regarding unit-linked policies (beleggingsverzekeringen). Individual customers as well as policyholder advocate groups and their representatives continue to focus on the fees and charges included in products, as well as alleged transparency aspects. Aegon expects this to remain an issue for the industry for the foreseeable future. Exposure and attention will be stimulated by court cases.

KoersPlan

In June 2013, the Dutch Supreme Court turned down an appeal from Aegon Spaarkas against a ruling of the Court of Appeal with respect to a specific unit-linked product, “KoersPlan”. As a result, Aegon Spaarkas compensated the approximately 35,000 holders of KoersPlan products who were plaintiffs in the litigation.

In June 2014, Aegon announced that it would voluntarily compensate holders of KoersPlan products who were not plaintiffs in the litigation. Compensation amounted to the difference, if any, between the actual premium charged by Aegon and the premium that would have been charged by Aegon for a comparable risk in a product providing only death benefit coverage over the same period. This product improvement is explicitly supported by the consumer interest group that initiated the court action over the KoersPlan product, Stichting Koersplandewegkwijt. A follow-up and extension of the Regeling Spaarbeleg for the Spaarbeurs and Spaarlift portfolio of Aegon Spaarkas started in 2017 and continued in 2019. Another follow-up improvement was announced in 2019 for the Fund/Safe portfolio.

In September 2014, consumer interest group Vereniging Woekerpolis.nl filed a class action against Aegon Levensverzekering and Aegon Spaarkas in court. The claim was related to a range of unit-linked products which Aegon sold in the past and include products that already had been subject to litigation, such as KoersPlan.

On June 28, 2017 (and revised in December 2017) the District Court of The Hague has rendered a final ruling which limited the scope to three products, Koersplan (tontine), Vermogensplan (tontine) and Fundplan (UL) and excluded all policies with a guarantee. The court upheld the principle that disclosures must be evaluated according to standards at the time when the relevant products were placed in-force. Most of the claims of Vereniging Woekerpolis.nl were dismissed under this standard, although the court found that Aegon did not adequately disclose the level of certain charges on a limited set of policies. According to the court these cost levels should be reasonable. The court did not give a judgement about the reasonableness of the cost levels and whether the previous compensation arrangements provide sufficient compensation. Both The Vereniging Woekerpolis.nl and Aegon have filed an appeal against the ruling of the District Court in The Hague. Furthermore there are individual claims pending at the Klachteninstituut Financiële Dienstverlening (Kifid) and courts filed by customers over products of Aegon that arguably include similar allegations. At this time the decisions of Kifid and courts are far from homogenous.

Securities leasing products ("aandelenlease")
Lawsuits have also been brought against providers of securities leasing products. In September 2016 the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that a financial institution was liable where the broker ('remisier') who advised on the sales of this financial institution's securities leasing products was not properly licensed to provide advice with regard to such products. Individual clients and advocate groups have already claimed or alleged that this ruling also applies to Aegon securities leasing products. In July 2016, consumer interest group Platform Aandelenlease (PAL) filed a class action claim against Aegon Bank regarding Sprintplan. Allegations include among other things, advice by remisiers that lacked proper licenses. In February 2020 the Court of Appeal rejected all claims of PAL. PAL may appeal in cassation against this ruling. Although the last Sprintplan expired more than a decade ago and there is a long history of litigation regarding security leasing products – including two prior class actions regarding Sprintplan –, it cannot be excluded that these proceedings might have a material adverse effect on Aegon's results of operations or financial position. In addition, Aegon Bank is involved in claims for compensation and the cancellation or nullification of contracts concerning the Vliegwiel product, a variation on securities leasing products. Currently, proceedings are pending before the Dutch courts and Kifid, with numerous cases having been initiated by Leaseproces B.V., a company that represents a large number of claimants.

Stichting Schaderegelingskantoor voor Rechtsbijstandverzekering (SRK)
SRK provides services for member insurers engaged in legal aid insurance. On May 23, 2018 Nationale Nederlanden Schade (NN) terminated its membership of SRK. On September 28, 2018 Aegon Schadeverzekering has subsequently also terminated its membership. SRK, NN and Aegon disagreed on the legal and financial consequences of these terminations. On request of SRK, on October 31, 2018 the Amsterdam Court of Appeals (Enterprise Chamber) appointed a special Supervisory Board Member at SRK with, inter alia, the task to mediate between the various stakeholders involved in this dispute. This lead to an amicable agreement being concluded on January 4, 2019 between, amongst others, SRK, NN and Aegon with respect to the consequences of aforementioned termination by NN and Aegon.

1.17. Reinsurance of longevity exposure

In December 2019, Aegon Nederland announced that it reinsures about one quarter of its longevity exposure with Canada Life Reinsurance. This will reduce required capital and improve Aegon Nederland's capital position. The reinsurance agreement with Canada Life Reinsurance, a division of a Toronto-based life insurance company with an AA rating from S&P Global, provides full protection against the longevity risk associated with EUR 7.6 billion of liabilities. The agreement includes both deferred and in-payment pensions and annuities. The contract commenced on December 31, 2019, and will run until the portfolio runs off. The longevity reinsurance agreement has no impact on the services and guarantees that Aegon Nederland provides to its policyholders.

1.18. Aegon Own Pension Scheme

The Implementation Agreement for the Aegon Nederland defined benefit pension plan with Aegon Levensverzekering had to be renewed at December 31, 2019. Had the existing agreement been renewed against the actual terms, the premium would have increased with nearly 50% due to low interest environment. Aegon Nederland wanted to fix the budget for the post-employment benefit costs at 25.4% of pension basis and use that for a new modern pension plan with the best possible pension result for the employees. A risk transfer from employer to employee seemed the most logical solution and thus the choice for a defined contribution plan was made. Long and intensive negotiations took place with the unions, but at the end of 2019 they agreed with the new plan.

The new Aegon Pension Plan will be between Aegon Nederland and Aegon Cappital and comes into effect on January 1, 2020. The existing defined benefit scheme will continue to exist and will remain insured at Aegon Levensverzekering, but will be closed to new members. Entitlements before January 1, 2020 will remain unchanged; there will be no further accruals of benefits to the current defined pension plan.

1.19. Aegon Growth Capital

As per October, 2019 Aegon Nederland invested EUR 10 million in Aegon Growth Capital. Aegon Growth Fund is an Amsterdam-based growth capital fund investing in FinTech and InsurTech companies, who are poised to spearhead transformation in the financial industry. In 2019, Aegon Growth Capital acquired 25 percent of the shares of RISK Verzekeringen. RISK supports financial advisors in their businesses with digital solutions.

1.20. Corona outbreak

At this time, the full impact from the coronavirus outbreak is not yet clear. Aegon Nederland cannot quantify the magnitude and duration of the coronavirus at this time given the fluidity of the situation. Aegon Nederland is, however, seeing that businesses among which possibly some of our clients and partners are impacted, both in the Netherlands and across the world. As a consequence, Aegon Nederland is seeing disruption to the global financial market as both stock markets and interest rates have declined significantly. Aegon Nederland has taken the necessary measures aiming to provide for the safety and the wellbeing of our colleagues and customers in the Netherlands and is closely monitoring payment behavior of our clients in these times of financial stress.

Like other companies operating in the Netherlands, Aegon Nederland is exposed to challenges resulting from the coronavirus pandemic. Aegon Nederland is taking measures aimed at safeguarding the interest of all our stakeholders in this difficult time. Aegon Nederland continues to monitor and assess its business operations daily. Refer to 5.2 ‘Corona virus disease outbreak’ for more information.

2. Financial information

2.1. Developments during the year

Underlying earnings reflect our profit from underlying business operations and exclude components that relate to accounting mismatches that are dependent on market volatility or relate to events that are considered outside the normal course business. Non-underlying earnings are earnings dependent upon market volatility or relate to events that are considered outside the normal course of business.

Earnings per line of business

Amounts in EUR million	2019	2018
Life	488	460
Non-life	32	41
Banking	102	103
Service business	18	11
Underlying earnings before tax	**640**	**615**
Fair value items	-365	275
Gains/(losses) on investments	241	46
Impairment charges / (reversals)	47	6
Other charges	-111	-165
Non-underlying earnings before tax	**-188**	**162**
Income before tax	**452**	**777**
Income tax	-102	-123
Net income	**349**	**654**

Aegon Nederland's income before tax in 2019 was EUR 452 million (2018: EUR 777 million). The underlying earnings before tax increased with EUR 25 million and the non-underlying items were EUR 350 million lower compared to the prior year. In the following paragraphs more details on the development of income before tax are given.

Underlying earnings before tax

Underlying earnings before tax amounts to EUR 640 million (2018: EUR 615 million). The main changes per business line are explained as follows:

- The business line Life increased with EUR 28 million compared to 2018. This is mainly driven by improved interest results due to increased exposure in real estate and alternative assets as well as lower operating expenses.
- The business line Non-Life decreased with EUR 11 million compared to 2018. This is mainly explained by the release of insurance liabilities due to data source improvements in 2018.
- Earnings within Banking are in line with to 2018. The continuing organic growth of bank savings resulted in an increased interest margin, but this was largely offset by higher expenses in line with the growth of the business, as well as higher costs due to the integration of Knab and Aegon Bank and additional KYC (Know Your Customer) expenses.
- Earnings in the Service business increased with EUR 7 million compared to 2018, mainly as a result of the increasing mortgage portfolio serviced by Aegon Hypotheken.

Non- underlying earnings before tax

Fair value items

Total fair value items amount to a loss of EUR 365 million, compared to a gain of EUR 275 million in 2018. The delta of EUR 0.6 billion is largely explained by significant negative results due to the LAT (Liability Adequacy Test) headroom deficit of EUR 1.5 billion, partly offset by the positive results on the guaranteed portfolio (f=EUR 0.4 billion) and the positive results on the guaranteed portfolio of EUR 0.6 billion. Revaluations on the real estate portfolio were EUR 0.1 billion lower than in 2018.

Gains/(losses) on investments

Gains on investments were EUR 195 million higher compared to 2018. Aegon Nederland continuously rebalances the asset portfolio to stay within internal interest rate risk limits. In 2019 capital driven action took place, resulting in the sale of a large portfolio of government bond and a significant profit. In 2018 no specific ALM actions took place and as a result very limitedrealized gains in 2018.

Other charges

In 2019 the other charges amounted to EUR 111 million (2018: other charges of EUR 165 million). The delta is for EUR 104 million explained by the amendment of the Aegon pension scheme per January 1, 2020 from a Defined Benefit plan to a Defined Contribution plan. This is partly offset by higher expenses as a result of restructuring provisions.

Amounts in EUR million	2019	2018
Pensions	1.236	1.065
Life	523	561
Accident and health	228	219
General insurance	130	136
Gross premiums	**2.117**	**1.981**
Investment income	2.231	2.243
Fees and commissions	237	214
Total revenues	**4.585**	**4.438**

Pensions

The single pension premiums, increased in 2019 due to a large buy out deal, indexation and backservie single premiums. The recurring premium production decreased further, caused by a lower premiums from the DB pension products, due to the low interest rates, as well as the continuous shift to DC products.

Life

Life premiums decreased in 2019. Recurring premiums were lower than last year due to expired contracts which could not be offset by new production. Single premiums were also lower than 2018 due to higher pricing of the products.

Non-Life

The Non-Life premiums are in line with prior year. Non-Life consists of ‘Accident and Health’ and ‘General Insurance’.

Mortgages

Total mortgage production in 2019 decreased to EUR 7.4 billion (2018: EUR 9.4 billion). The mortgage production for fee business decreased to EUR 4.3 billion (2018: EUR 4.7 billion) whereas the mortgage production for own account decreased to EUR 3.0 billion (2018: EUR 4.7 billion).

Fees and commissions expenses

Amounts in EUR million	2019	2018
Commissions	49	55
Operating expenses	855	753
Deferred expenses	-2	-10
Amortization charges DPAC/VOBA	4	25
Total commissions and expenses	**906**	**823**

The increase in operating expenses is explained by higher post-employment benefit costs, project expenses and the inclusion of Robidus, which was acquired in the fourth quarter of 2018. The decrease of deferred expenses and amortization charges is explained by the impairment of DAC and VOBA due to the LAT deficit in 2019.

Solvency and financial position

Group equity at December 31, 2019 amounts to EUR 6.790 million compared to EUR 7,287 million at year-end 2018. The decrease of EUR 497 million is consists of the positve net income (EUR 349 million) and the negative other comprehensive income due to the LAT deficit and defined benefit remeasurments.

Cash flows and funding
During 2019 the net cash flows increased with EUR 3,023 million (2018: decrease of EUR 2,377 million). This increase is mainly explained by cash from operating activies (EUR 1,138 million) and cash from financing activities (EUR 1,978 million).

Circumstances that impact future income and results
The main drivers of future income and results are interest rate developments and market- and demographic developments. No significant changes are expected for the following year regarding investing, financing and the Future Fit program. However, strategic investing opportunities are evaluated on an ongoing basis. Furthermore, Aegon Nederland did not perform significant activities regarding research and development during the year, nor expects to do so in the near future.

2.2. Solvency II

Insurance supervision in EU member states is based on EU legislation, which, as of January 1, 2016, is embedded in the Solvency II framework.

The Solvency II framework also consists of an EU Directive (Level I) and has consequently been transposed into the Dutch Financial Supervision Act. A large part of the Level II Solvency II rules are, however, also set out in EU regulations. These apply directly in EU member states, and as a consequence have not been implemented into national legislation, such as in the Decree on Prudential Rules under the Wft (Besluit prudentiële regels Wft).

The following insurance entities of Aegon Nederland are subject to prudential insurance supervision of DNB:

- Aegon Levensverzekering;
- Aegon Schadeverzekering; and
- Aegon Spaarkas;

An insurance company is not permitted to conduct both life insurance and non-life insurance business within a single legal entity (with the exception of reinsurance). In addition, it is not permitted to carry out both insurance and banking activities within the same legal entity. Aegon Nederland is in compliance with this legislation, refer table in paragraph 1.2.

Insurance companies in the Netherlands may conduct their activities on a cross-border basis or through a branch office based on the mutual recognition of (prudential) supervision in the EU (the so-called 'European passport'). Aegon Nederland does not have material cross-border insurance business or business conducted through branch offices elsewhere in the EU.

Prudential supervision is exercised by the home state supervisory authority (DNB in the Netherlands). One of the main quantitative elements of insurance supervision is the assessment of the solvency position of the insurance company. The solvency position is assessed through a comparison of available capital (Own Funds) and required capital (Solvency Capital Requirement or SCR).

With respect to the Own Funds of Aegon Nederland, the liability calculation includes the use of the volatility adjustment, but does not include the use of any transitional measures. Aegon Nederland uses a Partial Internal Model (PIM) to calculate the SCR for its life insurance activities under Solvency II. The Partial Internal Model was approved by DNB on November 26, 2015, concluding the Internal Model Application Process. Following the Internal Model Application Process, Aegon Nederland made several major changes to its internal model 2017 and 2018, all of which have been approved by the DNB. These changes are therefore reflected in the solvency position of Aegon Nederland per year-end 2019.

Aegon Nederland uses a standard formula to calculate the solvency position of its non-life insurance activities related to Aegon Schadeverzekering under Solvency II. The solvency position of the banking activities will continue to be calculated using the CRR/CRD IV framework.

Aegon Nederland's capital position is provided in the table below:

	31-12-2019*	31-12-2018
Own Funds	5.962	6.242
Partial Internal Model SCR	3.480	3.300
Solvency II ratio	**171%**	**189%**

	Solvency II Ratio 2019*	Solvency II Ratio 2018
Aegon Levensverzekering	164%	182%
Aegon Schadeverzekering	163%	163%
Aegon Spaarkas	395%	501%
Optas Pensioenen**	-	721%
Aegon Nederland	**171%**	**189%**

*The Solvency II ratio for 2019 is an estimate. Concerning the individual insurance entities, it is not final until filed with the regulator and subject to supervisory review. For Aegon Nederland, no filing requirements apply. Furthermore, it should be noted that as per 2019 Aegon Nederland reports a Solvency II ratio excluding banking activities (Aegon Bank), in line with peers. The comparatives have been adjusted accordingly.

** As of January 1, 2019 Optas Pensioenen and Aegon Levensverzekering have merged.

The Solvency II ratio disclosed is without taking into account the dividend paid in February 2020.

The decreased Solvency II ratio of Aegon Nederland (excluding Aegon Bank) is a combination of a decrease in Own Funds and an increase in SCR. The decrease in Own funds is driven by market movements (namely the strong decrease in the EIOPA VA, widening of mortgage spreads) and model and assumption changes (including the UFR decrease to 3.9%), with an offset from normalized capital generation and other movements, amongst which the plan amendment of the own pension fund and movements within other entities.

The increase in SCR is driven by market movements (namely the overall decrease of interest rates) and model and assumption changes, with an offset from management actions. The impact from model and assumption changes reflect the revision of the capital charges for illiquid investments and the annual parameter update. The impact from management actions reflect de-risking activities amongst which the new reinsurance arrangementwhich was entered into per December 31, 2019 in order to reduce Aegon Levensverzekering's exposure to longevity risk. The new reinsurance arrangement covers a significant part of the in-force book, approximating EUR 7.6 billion of insurance liabilities.

<u>Minimum regulatory solvency requirements</u>
Insurance laws and regulations contain minimum regulatory capital requirements of 100% SCR for insurance companies in the European Union. For insurance companies in the European Union, Solvency II also defines a lower capital requirement, the Minimum Capital Requirement (MCR). An irreparable breach of the MCR would lead to the withdrawal of the insurance license.

With the introduction of Solvency II for EEA countries, Aegon Nederland views these minimum regulatory capital requirements as the level around which the regulator will formally require management to provide regulatory recovery plans. For insurance companies in the European Union this is set at 100% SCR. All insurance entities operate in excess of this requirement.

As at December 31, 2019, the factor of LAC DT is set at 65% for Aegon Levensverzekering (a lowering compared to the 75% in 2018 to account for economic and regulatory uncertainty) and 75% for Aegon Schadeverzekering and Aegon Spaarkas (unchanged compared to 2018). The corporate tax rate was lowered to reflect the upcoming tax rate changes in 2021. The LAC DT factor is assessed on a quarterly basis following DNB guidance and LAC DT related proposals in the SII regulation consultation paper of EIOPA.

Moreover, the lowering of Ultimate Forward Rate (UFR) from 3.9% to 3.75% in 2020 would result in an estimated impact of 5%-points decrease of the Solvency II ratio.

The Solvency II ratio of Aegon Nederland does not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon Nederland in the past as the potential liability cannot be reliably quantified at this point. In addition, discussions are ongoing with respect to the interpretation/substantiation of certain elements in the technical provisions and SCR.

Solvency II 2018 review
On June 18, 2019, the EU Regulation that contains amendments to the Solvency II Delegated Regulation as a result of the 2018 review of the Solvency II framework was published in the Official Journal of the European Union. Most of the amendments have entered into force during the second half of 2019 and some as per January 1, 2020. The purpose of the 2018 review has been to review specific items of the SCR standard formula calculation in the Solvency II Delegated Regulation, in order to achieve a more proportionate and simplified application of the requirements, removal of technical inconsistencies and the removal of unjustified constraints to financing. Amongst others, the amendments relate to tiering requirements for subordinated liabilities as part of own funds and LAC DT, further alignment between the group and solo-approach to the look-through of investment fund participations, amended treatment of certain risk mitigating techniques, for the standard formula calculation, adjustments of the treatment of derivatives, the recognition of local/regional government issued guarantees and the recalibration of non-life premium and reserve-risk standard deviations in certain sub-modules.

Solvency II 2020 review
In addition to the review of the 2018 review of the Solvency II Delegated Regulation, a more fundamental review of the Solvency II Directive has commenced, referred to as the Solvency II 2020 review. On February 10, 2019, the European Commission has requested EIOPA to provide, in the context of the 2020 review, by June 30, 2020, technical advice in the following areas:
- Long-term guarantees (LTG) measures and measures on equity risk;
- Specific methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula;
- Rules and supervisory authorities' practices on the calculation of the Minimum Capital Requirement;
- The supervision of insurance and reinsurance undertakings in a group; and
- Other items related to the supervision of insurance and reinsurance undertakings.

In November 2019 EIOPA has published a substantial consultation document in the context of the Solvency II 2020 review. Through the consultation process EIOPA expects to obtain input for its technical advice to the European Commission. Earlier in 2019, separate consultations have taken place on disclosure and reporting requirements under Solvency II, insurance guarantee schemes and resolution funding. A formal legislative proposal of the European Commission on the Solvency II 2020 review will be published later in 2020. Due to the fact that the final technical advice has not yet been published and it is not clear to what extent the European Commission will take into account the advice in its proposals, the potential impact of the review is uncertain.

On 8 March 2018, the Commission adopted its Action Plan on sustainable finance in which it announced several actions to incorporate sustainable finance in the heart of the financial system. Further to this Action Plan, the Commission adopted, on 24 May 2018, a package of legislative measures on sustainable finance. The Commission has requested technical advice from (inter alia) EIOPA and ESMA on the delegated acts that would supplement this package amending, or, where necessary, introducing level 2 measures of, inter alia, the Solvency II Directive with the aim of incorporating sustainability risks, i.e. environmental, social and governance risks by financial market participants subject to those rules. In that context, on the request of the European Commission, EIOPA has provided, on September 30, 2019, an opinion to the European Commission on Solvency II and sustainability. The European Commission had requested EIOPA's views on the integration of sustainability, in particular climate-related developments, into the Solvency II framework for the valuation of assets and liabilities, investment and underwriting practices, the calibration of market and natural catastrophe risks and the use of internal models, i.e. focusing on Pillar 1 requirements. The European Commission will take the EIOPA opinion into account in the Solvency II 2020 review. In addition, EIOPA has provided, on April 30, 2019, the European Commission with technical advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD. This advice focused primarily on Pillar 2 requirements in Solvency II and IDD.

The capitalization of Aegon Nederland and its subsidiaries is managed on regulatory requirements, rating agency requirements and/or self-imposed criteria. The Solvency II target range for all insurance subsidiaries of Aegon Nederland, which is a self-imposed target range, are shown in the table below.

The capitalization of Aegon Nederland and its subsidiaries is managed on regulatory requirements, rating agency requirements and/or self-imposed criteria. Aegon manages its Solvency II capital in relation to the required capital. For more details about the Solvency II target range, which is a self-imposed target range, refer to note 4.4 ‘Capital Management and solvency’.

3. Corporate Governance

Aegon Nederland voluntarily has a Code of Conduct in place. This Code of Conduct (which can be found on www.aegon.com) is intended to provide further clarity on sound and responsible business practices, and ensure a common approach for how we carry out our business in Aegon Nederland's markets.

Aegon Nederland also endorses the values from the (Bank and Insurance) oath/promise. The oath/promise is a so-called "moral ethics statement" that is effective in the Netherlands since 2015. The "moral ethics statement" is given by employees in the financial sector in the Netherlands, with the aim of being fully aware, keeping in mind their special role in society, that they must always carefully weigh the interests of all stakeholders, with the interests of the customer taking a central place.

The ultimate holding company of Aegon Nederland, Aegon N.V., is supervised as a financial services group by the Dutch Central Bank ('De Nederlandsche Bank or DNB'). Aegon N.V. observes the laws and regulations applicable in their local markets and country units; for example, Aegon N.V. complies with SEC requirements and the US Sarbanes-Oxley Act. In addition, Aegon N.V. complies with international corporate governance guidelines, including the Guidelines for Multinational Enterprises set in place by the Organization for Economic Co-operation and Development (OECD). This is reflected in the corporate governance of Aegon Nederland.

Governance principles
The Governance principles for Insurers issued by the Dutch Association of Insurers was revoked on January 1, 2016. Aegon Nederland continues to subscribe to the importance of governance principles and will therefore continue to act according to the governance principles as are implemented within Aegon Nederland. Aegon Nederland also complies with other relevant governance guidelines and self-regulation by the Dutch Association of Insurers. Below, the most important elements of our governance principles are explained.

Accountability
Aegon Nederland present an overview of the application of governance principles. This is done on behalf of the insurance companies Aegon Levensverzekering, Aegon Schadeverzekering and Aegon Spaarkas. The accountability report also forms an integral part of the annual reports of these insurance companies. References in the remainder of this annual report to 'Aegon Nederland' include these insurance companies.

Supervisory Board
The Supervisory Board functions as the supervisory board for Aegon Nederland and each of the insurance subsidiaries of Aegon Nederland that are under supervision of DNB.

Membership and expertise
The majority of the members of Aegon Nederland's Supervisory Board are formally independent and operate independently in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2012 (Beleidsregel geschiktheid 2012) and in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2020 (Beleidsregel geschiktheid 2020). Given the members' different professional and educational backgrounds, ages and range of knowledge and experience, the Supervisory Board has a broad-based membership. In Aegon Nederland's view, the members' knowledge and experience complement each other. Aegon Nederland has set out in detail the Supervisory Board's duties in the Supervisory Board Charter. Aegon Nederland has an up-to-date profile of the Supervisory Board, further specifying and recording its vision on the membership. The profile is tailored to Aegon Nederland's nature, size and complexity and also incorporates the competences in DNB's Suitability Matrix for Supervisory Boards.

The members have broad social and commercial backgrounds and experience. As members of Aegon Nederland's Supervisory Board and through other supervisory directorships, they have in-depth knowledge of the role and function of insurance companies and their stakeholders in society. Regarding decision making and supervision, the Supervisory Board balances the interests of all stakeholders, including customers, distribution partners and employees. Where relevant, this is recorded in the minutes and is part of the self-evaluation by the Supervisory Board.

Furthermore a Supervisory Board profile is available and if a vacancy arises, an individual profile is to be created. In addition to Aegon Nederland performing annual checks of individual critical abilities against the DNB's Suitability Matrix for Supervisory Boards, regular self-evaluations and permanent education programs are followed. If a vacancy arises for the position of chairman, an individual profile is drawn up which focuses on the Supervisory Board's and Aegon Nederland's requirements regarding expertise and experience in relation to the financial sector, familiarity with socio-economic and political culture and the social environments of Aegon Nederland's main markets.

Experience has shown that all members of the Supervisory Board are sufficiently available and accessible to perform their duties properly. The importance of this principle is underlined in the profile, the Rules of the Supervisory Board and the Aegon Nederland Governance Guide. Compliance is also checked in the regular self-evaluations. The members of the Supervisory Board receive suitable compensation that is independent of Aegon Nederland's financial results. Compensation is set by the General Meeting of Shareholders.

Aegon Nederland has a permanent education program for members of the Supervisory Board and the Board of Directors. The program covers national and international developments in the financial sector as well as corporate governance in general and in the financial sector in particular. The program further includes topics such as the duty of care towards customers and putting customers' interests first, integrity, risk management, financial reporting and audit. In 2019 the evaluation of its own functioning was performed. The results were satisfactory and were discussed by the Supervisory Board and with the Board of Directors and where necessary, actions were taken.

Duties and working methods
The Supervisory Board's discussions on risk management decisions are prepared by the Risk & Audit Committee. The members of the Aegon Risk & Audit Committee have adequate knowledge, experience and/or competences to allow for sound supervision of the financial aspects of risk management, financial reporting, internal control and audit.

Board of Directors

Membership and expertise
At Aegon Nederland, complementarity and diversity within the Board of Directors is ensured by the members' different backgrounds, personalities and range of knowledge and experience. Whereas the members of the Board of Directors have equal decision-making authority, it aspires to take decisions by consensus as far as possible. The members of the Board of Directors have broad-based commercial background and experience in the financial sector in general and in insurance in particular. With this wide range of experience they have sufficient knowledge of the function of insurance companies in society and are aware of the interests of stakeholders. Each member of the Board of Directors also has the necessary knowledge to be able to assess and determine the main points of Aegon Nederland's overall policy and to form a balanced and independent opinion on the risks that Aegon faces.

The knowledge of the members of the Board of Directors is kept up to standard and is improved by means of Aegon Nederland's permanent education program, which is organized by the Secretary of the Board, together with the HR Learning & Development department. The latter is also responsible for keeping records on participation. In its decisions, the Board of Directors takes into account Aegon Nederland's risk appetite. The Board considers whether or not a decision to be taken is within the risk appetite, thus ensuring a careful balance between its commercial objectives and the interests and the risks involved.

The CRO is the director of the Risk Management & Compliance department, which is organized as a second line of defense and is the risk management function holder (RFH). The CRO is also a member of the Board of Aegon Nederland. In this capacity, the CRO is closely involved in all the decisions that have a material impact on Aegon Nederland's risk profile. The risk management function focuses on financial stability and the impact that systemic risks may have on Aegon Nederland's risk profile. The CRO reports hierarchically to the CEO and also has a direct reporting line to the Chairman of the Risk and Audit Committee of the Supervisory Board.

The CFO is fully responsible for the financial and capital management of Aegon Nederland. The CFO leads the financial function in the statutory board of Aegon Nederland in the broadest sense, to ensure the financial position of Aegon Nederland is known at all times, the management is in control and regulators and other stakeholders receive sufficient reports to form a judgment about the state of Aegon Nederland in time. The function is responsible for the financial policies of Aegon Nederland. Amongst others the departments of Financial Information Management (Accounting, Reporting, Actuarial & Solvency II) and Capital Management report to the CFO. The CFO has no individual commercial responsibility and operates independently of other commercial areas.

Duties and working methods
In its decision making, Aegon Nederland's Board of Directors carefully considers the interests of all parties concerned, taking into account its vision, strategy and applicable codes of conduct such as the Aegon Nederland Code of Conduct. Putting customers and their interests first is at the heart of our vision, strategy and day-to-day activities. It is an integral part of our thinking and runs through all operations at every level of the company. This means that employees with customer contacts are closely involved with the theme. There are special training programs on the theme and it is part of our recruitment policy.

In Aegon Nederland's vision, the company holds responsibility for people's financial awareness and development. Aegon Nederland strives to offer easily-understood solutions in genuine dialogue in order to enable customers to make conscious decisions about their financial future. Aegon Nederland wants to present matters as they are. We believe it is our responsibility to assist customers and explain things in a simple way.

The customer comes first in our strategy. The strategy aims to carefully balance the interests of not only customers, but also of all Aegon Nederland stakeholders, including employees. Aegon Nederland believes that paying attention to the interests of all stakeholders is in the customer's interest.

The members of the Board of Directors act in a careful, expert and fair manner. They keep up to date with developments in legislation and regulations, partly through the permanent education program. All members of the Board of Directors took the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations. Integrity, care and putting customers' interests first are guiding principles for all Aegon Nederland employees, which is reflected are the Aegon Nederland Code of Conduct and apply to all Aegon Nederland employees.

The Aegon Nederland Code of Conduct is embedded in the Aegon culture, by e.g. inclusion in employment contracts (since 2012), providing e-learning modules to new recruits and annual e-learning modules to all employees. In addition all employees are annually required to confirm compliance to the code of conduct.

4. Corporate social responsibility

Responsible and sustainable business is very important to Aegon Nederland and its subsidiaries. It is its mission to enable customers to make well-informed choices for a healthy financial future. Every day Aegon Nederland helps people to live a solid financial life, today and later on. Aegon Nederland also knows that not everyone is able to make conscious choices. In society, people need to take care of themselves more and more and unfortunately there are many people who fail to succeed. For that reason Aegon Nederland takes a position in society for people with debts by helping them on their way to opportunities.

Environment
Aegon Nederland believes it is very important that the objectives of the Paris Climate Agreement are actually achieved. Both from a social point of view and for our customers so that they can grow old in a pleasant environment. That is why we do not want to run climate risks with the pension money that we invest for them. But also by looking at offices, mobility, cooperation with other companies, and by creating awareness amongst employees, suppliers and other stakeholders. Aegon Nederland has the ambition to halve the ecological footprint of internal business operations per employee in 2030 compared to 2018. The Aegon Nederland activities are aligned with the department of Strategy and Sustainability of Aegon N.V. in order to maintain focus and share best practices. In determining the strategy for Aegon Nederland in the period 2019-2022, responsible business has been identified as one of the five transition KPI’s on the management dashboard of Aegon Nederland.

Our investments are an important way of realizing our environmental objectives. That is why our responsible investment strategies, policies, instruments (screening, engagement, voting, exclusion) and the actual investments are also focused on realizing change. At Aegon Nederland there is a focus on investments in sustainable real estate and the energy transition.

Next to that Aegon decided to no longer invest in in:
- Companies that derive 30% or more of their revenues from thermal coal exploration, mining or refining. The threshold will be decreased to reach effectively zero (0-5%) by 2030.
- Companies that generate electricity with installed coal-fired generation capacity of 30% or more. The threshold will be decreased to reach effectively zero (0-5%) by 2030.
- Companies that derive 30% or more of their total oil equivalent production from oil sands. The threshold will be decreased to reach effectively zero (0-5%) by 2030.
- Companies that are pipeline operators and which are significantly involved in oil sands transportation

These investments no longer fit our low-carbon strategy.

Furthermore, Aegon Nederland and Aegon Asset Management Nederland have supported several resolutions in order to request for more ambitious climate targets at the General Shareholders meetings of Chevron, BP, Exxon and Equinor in 2019. These oil and gas companies should make changes in their strategies to support the needed climate transition to a low-carbon economy.

Social
The main program aimed at society is Van Schulden naar Kansen (From Debts to Opportunities). The aim is to reduce the number of households living in poverty due to debts. People are being helped with learning skills, knowledge and behavior on their financial situation. To accomplish this, Aegon Nederland supported local organizations financially and with the help of Aegon employees acting as a volunteer.

For the eighth consecutive year, employees helped people who live nearby the headoffice in The Hague with 1-on-1 conversations during the ‘Pensioen3daagse’ to improve understanding of what they would need for their retirement. During the ‘Week van het Geld’ (Money Week), employees gave lessons at primary schools to raise children’s financial awareness on insurance. During the so called ‘Volunteering Friday’ Aegon Nederland promotes the opportunity to do volunteering work as laid out in the collective labour agreement. The activities are all organized in nearby municipalities.

There has been ongoing attention to the sponsorship of the Alzheimercenter Amsterdam. Since 2002 Aegon Nederland has been the main sponsor. This sponsorship is aligned with Aegon Nederland’s vision: enable people to make self-conscious decisions on their healthy financial future. Around World Alzheimer's Day 2019, Aegon signed a contract with Jetske van der Schaar. A young woman, carrier of the hereditary Alzheimer gene, who, financially supported by Aegon Nederland, writes a book about her search for a medicine for this disease. In 2019 Aegon also became the main sponsor of the Special Olympics Nationale Spelen (SONS) 2020 in The Hague for people with a mental disability.

Based on new legislation, small pensions (less than 2 euros annually future pension) ended in 2019. The value of these pensions (EUR 17.871) has been donated to the Alzheimercenter.

On July 10, 2019, Minister of State Barbara Visser (Defense) signed the Social Impact Bond 'Joining Forces'. The signing of this Social Impact bond is the start of an innovative program to re-integrate service unsuitable soldiers. Aegon invests in the Fund that finances this re-integration which is supported by a.o. Robidus.

Economic
Aegon Nederland's mission also entails the economic perspective: enable customers to make conscious decisions about their financial future. In 2019 Aegon Nederland continued with the campaign 'Goed met geld'. Dutch people are becoming more and more responsible for their own financial future. But arranging money matters is not everyone's hobby. Many people find it complicated or boring, and prefer to postpone it. That is why Aegon Nederland is helping them via this campaign. Videos, but also blogs, checklists and the 'Goed met Geld' test have been developed. In this way Aegon Nederland makes people aware of their own responsibility and encourages them to take action. Especially financially dependent women are particularly vulnerable in the case of the death of a partner or a divorce. Together with organizations and experts from across the country, Aegon Nederland is seeking to make it easier for all members of society to manage their finances.

Amvest
Together with partner Amvest, Aegon Nederland continues its efforts to be a responsible investor through further optimizing its real estate investment portfolio. Aegon's key focus is to contribute by investing in sustainable and affordable homes for a broad target group, including people with key jobs, younger people and vulnerable elderly.

On behalf of Aegon Nederland, Amvest has acquired the 'Startmotor' in Rotterdam consisting of 581 regulated rental dwellings under construction. The 'Startmotor' is a new initiative which offers safe housing to younger people that start their 'residence career' and is more than just an apartment. The 'Startmotor' functions as a community concept where young people can live together, share common facilities and can be supported by additional services when needed.

Furthermore, Amvest acquired 816 rental dwellings under construction in SPOT Amsterdam. SPOT is part of a larger transformation project to change the former Amstel III business park into a 'mixed-use neighborhood' and will offer comfortable homes with the amenities of a small town to approximately 1,200 to 1,600 residents. The majority of the rental dwellings in SPOT will be affordable homes through a mix of regulated and mid-priced homes. An assigned number of homes will be exclusively available to people with certain key jobs to society, like school teachers, police offers and nurses. With the acquisition of SPOT, Aegon Nederland contributes to keep a city like Amsterdam affordable to live in for a broad group of people.

Another essential part of Aegon's responsible investment strategy is to make the existing real estate investment portfolio more sustainable. Aegon is making good progress with its real estate investment sustainability program. As part of the program the roll-out of solar panels for Aegon's existing single family homes that started in 2018 continues. Aegon also continues to improve the energy labels of existing homes through renovation projects whereby technical, energetic and functional measures are taken to enhance quality of living and reduce energy costs and CO_2 emissions. Aegon's ongoing sustainability efforts are rewarded by an improved score in the Global Real Estate Sustainability Benchmark (GRESB). In 2019 the direct real estate investment portfolio score improved further to 4 stars (2018: 3 stars). Aegon Nederland is also a large investor in the Amvest Residential Core Fund and Amvest Living and Care Fund. Both funds achieve the maximum GRESB score of 5 stars in 2019.

5. Outlook

5.1. Developments

The insurance industry has been in a period of major change for a number of years, partly as a result of developments in the economy, but also because customers, legislators and regulators require it. This trend is expected to continue in 2020.

Aegon operates in a changing environment: the labor market changes rapidly, people are living longer, the interest rates remain low, employers and employees demand more flexibility and as a result of these developments defined contribution plans are growing significantly at the expense of DB plans.

Aegon is committed to a sustainable future-proof pension system that provides adequate pensions for all participants in the labor market. Aegon is well and broadly positioned in the pension market with administration (TKP Pensioenen), DC products (Aegon Cappital) and Insurance (Aegon Levensverzekering) to meet our customer expectations. We continue to invest in new solutions for employers and employees, are an opinion leader and actively involved in public discussions about retirement with all stakeholders.

The strong recovery of the housing market impacted the mortgage market. Funding tightens, but demand for mortgage products is expected to remain high. Disintermediation and new forms of advice on financial products and services are expected to develop and change further in 2020, driving the shift towards cross-channel solutions.

Accident & Health products are very often complementary to the social security in the Netherlands and therefore dependent on changes in legislation. Social security is being reviewed by the Dutch government (Report commission Borstlap) and changes in legislation will definitely have an impact on the Income business. Currently the political dialogue is ongoing and expected changes will have an outcome in the next few years. In this environment Aegon is positioning itself well with service providing (Robidus) and growing insurance solutions (Aegon Schadeverzekering)

As we have stressed in recent years, technological developments and the digitization of financial services are accelerating. The traditional financial institutions are starting to transform their businesses towards a new era. Addressing these developments is at the core of our strategy.

Finally, economic conditions, the situation in the financial markets and the shrinking insurance market are driving an increased focused on cost efficiency in our markets. All these trends combined require Aegon Nederland to deliver enhanced performance for all our stakeholders at reduced expense levels.

5.2. Coronavirus disease outbreak

Since January 2020, the Coronavirus disease (COVID-19) outbreak is causing significant disruption to society, impacting Aegon Nederland, its employees, suppliers and customers.

Financial markets have been severely impacted by significant decreases in interest rates, equity markets and commodity prices. Governments and central banks worldwide are responding to this crisis with aid packages and further quantitative easing. At the date of this report the depth and length of this crisis is unknown.

Aegon Nederland is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its impact on Aegon Nederland. The most significant risks Aegon Nederland faces are related to financial markets (particularly credit, equity and interest rates), and underwriting risks (particularly related to mortality, morbidity and policyholder behavior). Developments in interest rates as a result of the COVID-19 crisis could take place. Part of the instruments used to manage interest risk are interest rate derivatives. When interest rates increase Aegon Nederland will be required to post collateral with counterparties. Aegon Nederland is continuously monitoring the interest rate developments and the related liquidity position, taking necessary management actions to prepare for such an event Aegon Nederland closely matches the duration of the investments held in relation to the insurance obligations. To manage this potential liquidity need, Aegon holds a large proportion of the investments in liquid instruments which can be quickly converted into cash. It was observed that commercial paper investments managed by the treasury department were less liquid in the market end of March. As a result Aegon Nederland decided to manage to higher overnight cash buffers than in normal circumstances and increase this to EUR 3 billion. This provides a buffer for sudden liquidity needs through interest rate movements, next the money market portfolio, liquid investment portfolio and liquidity lines. To facilitate this, firstly financial instruments that matured were no longer reinvested and secondly Aegon Nederland has entered into several repurchase agreements to generate immediate liquidity. Meanwhile, the liquidity of the commercial paper market is monitored.

The notes to Aegon Nederland's financial statements include elaborate descriptions and related financial market sensitivities. Aegon Nederland continues to monitor claim activity, including the developments with respect to mortality, morbidity and policyholder behavior. At the date of this report it is too early to tell what the impact of the COVID-19 crisis will be on Aegon Nederland's underwriting results and Aegon Nederland's long term underwriting and economic assumptions.

Because of the far-reaching measures governments around the world are taking to control the impact of this pandemic we expect the sale of new business to be impacted by these measures. At the date of this report it is too early to tell what the impact of these measures will be on our sales. Lower interest rates are also likely to impact the profitability of our new business depending on the market response. It is currently not possible to estimate the impact on the business of Aegon Nederland.

Aegon Nederland has invoked its business continuity plans to help ensure the safety and well-being of its staff, as well as its capability to support its customers and maintain its business operations.

Although, as described above, the uncertainties associated with the COVID-19 outbreak are high and it is not currently possible to estimate future effects, we believe that based on current insights, no material uncertainty relating to going concern exist and therefore the going concern assumption used in preparing the financial statements is appropriate.

5.3. Post reporting date events and expectations

In February 2020 EUR 100 million dividend was paid to Aegon Europe Holding B.V.

Except for the event disclosed before and the Coronavirus disease outbreak (refer to note 5.2 'Coronavirus disease outbreak' in this Report), there are no other post reporting date events and expectations that have not already been taken into account in the directors' report or financial statements.

The Board of Directors have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Board will authorize the Chairman to sign the annual accounts on their behalf. The Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Board Members are not present as covered by article 2:101 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Board of Directors,

M.J. Edixhoven (chair)	
B. Magid	
W.A. Hekstra	
A. Schlichting	
W. Horstmann	

Report of the Supervisory Board

1. General

The Supervisory Board has been in place since 2011 and functions as the supervisory board for Aegon Nederland and each of the insurance subsidiaries of Aegon Nederland that are under supervision of De Nederlandsche Bank, i.e. Aegon Levensverzekering N.V., Aegon Schadeverzekering N.V. and Aegon Spaarkas N.V.. The Supervisory Board has the duty to supervise and advise the Board of Directors on its management of the company. The Supervisory Boards of the insurance subsidiaries meet at least four times a year at regular intervals, simultaneously with the Supervisory Board of Aegon Nederland.

The members of the Supervisory Board take the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations.

The Supervisory Board was involved in the preparation of appointments and dismissals of members of the Board of Directors and discusses the company's quarterly results, accounting policies, internal control procedures and strategy. The Supervisory Board is involved in setting the remuneration of members of the Board of Directors, senior management and employees of the company. Among others, the Supervisory Board approves the general principles of the Aegon Nederland remuneration policies, periodically assesses the general principles of the remuneration policy and is responsible for the remuneration policy for the Board of Directors.

In 2019, the Supervisory Board performed its duties in close co-operation with the Board of Directors and held six meetings. Moreover the Supervisory Board held several calls with the Board of Directors to discuss a.o. strategic initiatives (like potential acquisition of Vivat). The Risk and Audit Committee of the Supervisory Board held five meetings. Also the Remuneration Committee held several meetings. The attendance percentage was high.

The regulated entities Aegon Bank N.V., Aegon Cappital B.V., Salus Holding B.V. and TKP Pensioen B.V. have separate Supervisory Boards.

2. Subjects discussed during the meetings

During the meetings of the Supervisory Board, the Risk and Audit Committee of the Supervisory Board and the Remuneration Committee, several topics were discussed. Hereafter a list of topics is presented. Regarding some topics a brief explanation is provided.

- Execution of the Future Fit Strategy (in line with the three strategic bucket approach) and new strategic developments, including possible M&A initiatives.
- Solvency II updates and discussions in general, regarding (inter alia) developments in the Solvency ratio and more specific developments and implications of major model changes.
- Initiatives and discussions on strengthening the Solvency II capital of Aegon Levensverzekering. The Supervisory Board discussed this extensively with the Board of Directors and closely monitored the decision making process and execution of the initiatives.
- SII 2019 Reports, such as ORSA, SCFR and RSR reports.
- Quarterly business results. Each quarter the Supervisory Board was updated on and discussed the business results of (inter alia) Aegon Retail and Aegon Wholesale in the context of the Future Fit Strategy. This also included updates and discussions on several key programs.
- Capital Management Policy.
- Dividend proposals.
- Risk Appetite Policy and Key Risk Indicators.
- Supervisory Board self-evaluation (board effectiveness). The Supervisory Board evaluated its own functioning. The results were satisfactory and were discussed by the Supervisory Board and with the Board of Directors and where necessary, actions were taken.
- PricewaterhouseCoopers Accountants N.V. Management Letter 2019. A topic of discussion and monitoring concerned the outstanding actions.
- Annual report 2019.
- Audit plan 2019.
- Risk Management, Compliance and Actuarial Function reports.
- Customer NPS.
- Cost efficiency developments.

- Updates on the execution of and preparation for implementation of impactful laws and regulations, including IFRS 17 and Brexit.
- Budget MTP 2020-2022.
- Updates on DNB and AFM letters, discussions and on-site visits, including DNB 'Focus' reports and meetings and AFM annual report and meeting;
- Mortgage valuation process and control environment.

The coronavirus outbreak has introduced new uncertainty, and the Supervisory Board is being kept informed of the measures Aegon Nederland is taking to prioritize the health and wellbeing of its employees and customers.

3. Gender diversity

Enhancing gender diversity in the Board of Directors and Supervisory Board is an important issue for Aegon Nederland. Selection and appointment is based on expertise, skills and relevant experience. The Supervisory Board also takes gender diversity into account in view of its aim of having a balanced Board of Directors composition. The Supervisory Board is aware that the current composition of the Board of Directors does not meet the 'balanced composition' requirement under Dutch law (Article 2: 166 Dutch civil code: at least 30% of the seats should be filled by women and at least 30% by men). When identifying candidates for open positions, the Board of Directors actively searches for suitable female candidates. It also instructs external search firms to present female candidates. While this has had a positive effect, the requirement has not yet been met.

4. Risk and Audit Committee

The Supervisory Board has formed a Risk and Audit Committee, whose members in 2019 were Mr. Vrancken (chair), Mrs. Jansen Heijtmajer and Mr. Jacobovits de Szeged. In 2019, the Risk and Audit Committee met five times. The CEO, CFO, COO and CRO (Mr. Edixhoven, Mr. Zomer, Mr. Hekstra and Mr. Horstmann) attended meetings on behalf of Aegon Nederland, along with Internal Audit, and managers of Capital Management, Financial Information Management & Reporting Office and the Actuarial and Compliance function holders (or their substitutes). On behalf of PricewaterhouseCoopers Accountants N.V., Mrs. Korver-Heins and Mr. Vermeulen both attended quarterly meetings.

On the agenda for the regular quarterly meetings, standing items were (i) the financial results of the previous quarter, (ii) quarterly reports on capital management, and (iii) regulatory developments, supplemented with quarterly reports from (iv) Risk Management & Compliance, and (v) Internal Audit, and the PricewaterhouseCoopers Accountants N.V. quarterly reports. The Risk and Audit Committee and the Supervisory Board approved the audit plans of both Internal Audit and PricewaterhouseCoopers Accountants N.V., and discussed the Aegon Nederland Risk Appetite. Other topics discussed during 2019 included among others the annual reports, RSR, ORSA, SFCR reports, developments related to Solvency II, in particular capital ratio, Actuarial Function Holder Report, SOx controls and the Management Letter. The Risk and Audit Committee reported – partly through the minutes of its meetings – on its findings to the Supervisory Board.

5. Remuneration Committee

The Remuneration Committee, members Mrs. Jansen Heijtmajer and Mr. Terpstra, convened in February and April 2019. As of May 13, 2019 Mrs. M. Hoek succeeded Mr. Terpstra, who has resigned as Supervisory Board Member. In its meetings, the Committee and subsequently the Supervisory Board approved the 2018 Addendum to the Aegon Group Global Remuneration Framework (AGGRF) and the 2019 Aegon Nederland variable compensation Key Performance Indicators (KPI's). Also the pay-out of deferred 2015-2017 variable compensation to Material Risk Taker and the performance and allocation of the variable compensation 2018 for MRT were discussed and approved.

6. Members of the Supervisory Board

As per January 1, 2019 Mr. Vrancken was appointed. As per May 13, 2019 Mrs. Hoek was appointed and Mr. Terpstra resigned. The terms of office of the supervisory board members are as follows:

Naam	**Year of first appointment**	**(Re-) Appointment**	**Resigns**
Mrs. D. Jansen Heijtmajer	2016	August 4, 2016	2020
Mrs. M.J.E. Hoek	2019	May 13, 2019	2023
Mr. D. Terpstra	2007	September 15, 2015	2019
Mr. G.T. Kepecs	2012	June 30, 2017	2021
Mr. D.F.R. Jacobovits de Szeged	2018	January 1, 2018	2022
Mr. G.J.M. Vrancken	2019	January 1, 2019	2023

The Supervisory Board have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Supervisory Board will authorize the Chairman to sign the annual accounts on their behalf. The Supervisory Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Supervisory Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Supervisory Board Members are not present as covered by article 2:101 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Supervisory Board,

D. Jansen Heijtmajer (chair)	
G.J.M. Vrancken	
M.J.E. Hoek	
G.T. Kepecs	
D.F.R. Jacobovits de Szeged	

Consolidated financial statements 2019 of Aegon Nederland N.V.

Consolidated statement of financial position

Amounts in EUR million	Note	31-12-2019	31-12-2018
Assets			
Cash and cash equivalents	5	9.032	6.010
Investments	6	61.362	58.171
Investments for account of policyholders	7	23.190	21.796
Derivatives	8	8.331	4.877
Investments in associates	9	106	85
Investments in joint ventures	10	1.159	1.001
Loans and group loans	11	913	583
Reinsurance assets		29	23
Deferred tax assets	24	87	-
Deferred expenses	12	360	66
Other assets and receivables	13	2.466	1.745
Intangible assets	14	152	160
Total assets		**107.189**	**94.517**
Equity and liabilities			
Shareholders' equity	15	6.775	7.272
Non-controlling interests	15	15	15
Group equity		**6.790**	**7.287**
Insurance contracts	16	40.554	34.844
Insurance contracts for account of policyholders	17	25.328	23.855
Savings deposits	19	11.517	10.586
Investment contracts	20	199	209
Investment contracts for account of policyholders	21	-	130
Derivatives	8	7.917	5.139
Borrowings and group borrowings	22	8.885	7.583
Provisions	23	74	43
Defined benefit liabilities	24	3.479	3.032
Deferred tax liabilities	25	-	236
Other liabilities and accruals	26	2.445	1.575
Total liabilities		**100.399**	**87.231**
Total equity and liabilities		**107.189**	**94.517**

Consolidated income statement

(for the year ended December 31, 2019)

Amounts in EUR million	Note	2019	2018
Revenues			
Premium income	27	2.117	1.981
Investment income	28	2.231	2.243
Fee and commission income	29	237	214
Total revenues		**4.585**	**4.438**
Income from reinsurance ceded		-2	-6
Results from financial transactions	30	5.822	-468
Other income	31	115	-
Total income		**10.520**	**3.964**
Charges			
Premiums to reinsurers	27	32	27
Policyholder claims and benefits	32	8.942	2.290
Profit sharing		9	15
Commissions and expenses	33	906	823
Impairment charges / (reversals)	34	165	49
Interest charges and related fees	35	138	129
Total charges		**10.192**	**3.333**
Income before share in profit / (loss) of joint ventures and associates and tax		**327**	**631**
Share in profit / (loss) of associates	9	-1	2
Share in profit / (loss) of joint ventures	10	125	144
Income / (loss) before tax		**452**	**777**
Income tax	36	-102	-124
Net income / (loss)		**349**	**654**
Net income / (loss) attributable to the parent company		**349**	**654**

Consolidated statement of comprehensive income

(for the year ended December 31, 2019)

Amounts in EUR million	Note	2019	2018
Net income		**349**	**654**
Items that will not be reclassified to profit or loss:			
Changes in revaluation reserve real estate held for own use	13.1	2	-4
Remeasurement of defined benefit plans	24	-466	-281
Income tax relating to items that will not be reclassified	25	115	19
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	15.3	-502	130
Equity movements of associates	9	-2	-1
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	15.3	-239	-49
Income tax relating to items that may be reclassified	15.3	171	57
Total other comprehensive income / (loss) for the period		**-921**	**-129**
Total comprehensive income / (loss)		**-572**	**524**
Total comprehensive income / (loss) attributable to the parent company		**-572**	**524**

Consolidated statement of changes in equity

Amounts in EUR million

2019	Share capital	Share premium	Revaluation reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Group equity
At January 1	24	1.742	1.381	4.126	7.272	15	7.287
Net income / (loss) recognized in the income statement	-	-	-	349	349	-	349
Other comprehensive income / (loss)	-	-	-570	-351	-921	-	-921
Total comprehensive income / (loss)	**-**	**-**	**-570**	**-2**	**-572**	**-**	**-572**
Addition to share premium	-	75	-	-	75	-	75
Dividends paid on common shares	-	-	-	-	-	-	-
At December 31	**24**	**1.817**	**811**	**4.123**	**6.775**	**15**	**6.790**

2018	Share capital	Share premium	Revaluation reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Group equity
At January 1	24	1.645	1.244	3.939	6.851	10	6.861
Net income / (loss) recognized in the income statement	-	-	-	654	654	-	654
Other comprehensive income / (loss)	-	-	137	-266	-130	-	-130
Total comprehensive income / (loss)	**-**	**-**	**137**	**387**	**524**	**-**	**524**
Addition to share premium	-	97	-	-	97	-	97
Dividends paid on common shares	-	-	-	-200	-200	-	-200
Other movements	-	-	-	-	-	5	5
At December 31	**24**	**1.742**	**1.381**	**4.126**	**7.272**	**15**	**7.287**

Refer to note 8.2 ‘Statement of changes in equity’ in the statutory financial statements for information on capital restrictions and legal reserves.

Consolidated cash flow statement

(for the year ended December 31, 2019)

Amounts in EUR million	Note	2019	2018
Income / (loss) before tax		**452**	**777**
Results from financial transactions	30	-5.822	468
Amortization and depreciation	33	97	101
Impairment losses / (reversals)	34	165	49
Income from joint ventures	10	-125	-144
Income from associates	9	1	-2
Change in provisions		31	7
Adjustments of non-cash items		**-5.653**	**478**
Insurance and investment liabilities	16/19	5.694	448
Insurance and investment liabilities for account of policyholders	16/19	1.343	-1.735
Defined benefit liabilities	24	-20	58
Accrued expenses and other liabilities	26	750	65
Accrued income and prepayments	13	-1.099	342
Shadow accounting		-1.725	-144
Changes in accruals		**4.943**	**-967**
Purchase of investments (other than money market investments)	6	-8.581	-8.919
Purchase of derivatives	8	-	-633
Disposal of investments (other than money market investments)	6	7.120	5.626
Disposal of derivatives	8	1.288	-484
Net disposal / (purchase) of investments for account of policyholders	7	1.581	839
Net change in cash collateral	26	75	-231
Cash flow movements on operating items not reflected in income		**1.483**	**-3.803**
Tax (paid) / received	36	-67	-88
Other		-19	4
Net cash flows from operating activities		**1.138**	**-3.599**

	Note	2019	2018
Purchase of individual intangible assets	14	-23	-22
Purchase of equipment and real estate for own use	13	-7	-3
Acquisition of subsidiaries, joint ventures and associates, net of cash	9/10	-120	-199
Disposal of equipment and real estate for own use	13	-	1
Disposal of subsidiaries, joint ventures and associates, net of cash	9	1	211
Dividend received from joint ventures and associates	10	56	25
Net cash flows from investing activities		**-93**	**12**
Loans to group related parties	11	-353	-136
Repayment of loans by group related parties	11	22	43
Proceeds from borrowings	22	1.460	879
Repayment of borrowings	22	-1.075	-1.351
Proceeds from group borrowings	22	1.024	1.472
Repayment of group borrowings	22	-106	-
Additions to entrusted savings	19	12.566	9.783
Redemption of entrusted savings	19	-11.634	-8.765
Dividends paid	15	-	-200
Addition to share premium	15	75	97
Net change in repurchase agreements	26	-	-612
Net cash flows from financing activities		**1.978**	**1.210**
Net increase / (decrease) in cash and cash equivalents		**3.023**	**-2.377**
Cash and cash equivalents at the beginning of the year	5	6.010	8.386
Cash and cash equivalents at the end of the year		**9.032**	**6.010**

The cash flow statement is prepared according to the indirect method. Included in the net cash flows from operating activities is the increase/ (decrease) in cash and cash equivalents related to:

	2019	2018
Interest received (excluding derivatives)	1.947	1.905
Interest paid (excluding derivatives)	144	136
Interest derivatives received / (paid)	50	82
Dividend received	239	239

<u>Reconciliation of liabilities arising from financing activities</u>
For both 2019 and 2018 the net cash flows from financing activities relate to the increase or decrease in long-term borrowings, group loans, entrusted savings, repurchase agreements and share premium payments. There was no effect from foreign currencies, as all financing activities take place in EUR. Furthermore the carrying value of all balance sheet items related to financing activities are measured at amortized cost, therefore there are no effects from fair value movements or any other movements.

Notes to the consolidated financial statements

1. General information

Aegon Nederland N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague with its registered address at Aegonplein 50, 2591 TV, The Hague with registration number KvK 27111251. Aegon Nederland N.V. ('Aegon Nederland') is wholly owned subsidiary of Aegon Europe Holding B.V. in The Hague. Aegon N.V., also domiciled in The Hague is the ultimate parent of the group.

Aegon Nederland (or 'the Company') and its subsidiaries ('Aegon' or 'the Group') are active in life insurance and pensions operations, savings and investment products, asset management operations, accident and health insurance, general insurance, banking operations, mortgages, pension administration and intermediary activities.

2. Significant accounting policies

2.1. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2019 is provided below in note 2.1.1 'Adoption of new IFRS-EU accounting standards and amendments effective in 2019'.

The consolidated financial statements are presented in euro and all amounts are rounded to the nearest million unless otherwise stated. The consequence is that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount.

The preparation of financial statements in conformity with IFRS-EU requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, goodwill, policyholders claims and benefits, insurance contracts and guarantees (including the liability adequacy test, or LAT), pension plans, corporate income taxes and the potential effects of resolving litigation matters. Aegon Nederland applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) 'carve out' of IFRS.

Company financial statements

The company's financial statements of Aegon Nederland have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. In accordance with article 362.8, Book 2, of the Dutch Civil Code, the Company's financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the consolidated financial statements of Aegon Nederland. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.

With regard to the income statement of Aegon Nederland, article 402, Book 2 of the Dutch Civil Code has been applied, allowing a condensed format.

Going concern

Management estimates that the organization has the resources to continue the business for the foreseeable future. Management is not aware of any material uncertainties which could give rise to doubt the continuity of the business. The financial statements are therefore based on the assumption that the organization will continue in business.

2.1.1. Adoption of new IFRS-EU accounting standards and amendments effective in 2019

New standards and amendments to standards become effective at the date specified by IFRS-EU, but may allow companies to opt for an earlier adoption date. In 2019, the following standards and amendments to existing standards issued by the IASB became mandatory or were early adopted:

Accounting standard / amendment / interpretation	IASB effective date	Endorsed by EU	Impact for the entity
IFRS 16 Leases	January 1, 2019	Yes	See below for comments
IFRIC 23 Uncertainty over Tax Treatments	January 1, 2019	Yes	Low
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	January 1, 2019	Yes	Low
Annual improvements 2015-2017	January 1, 2019	Yes	Low
Amendment to IAS 19 Plan amendment, curtailment or settlement	January 1, 2019	Yes	Low
Early adopted Interest Rate Benchmark Reform	January 1, 2020	Yes	See below for comments

Except for IFRS 16 Leases, and Interest Rate Benchmark Reform (early adopted by Aegon Nederland) the new standards and amendments to existing standards are currently not relevant or do not significantly impact the financial position or financial statements.

IFRS 16 Leases

IFRS 16 Leases was issued by the IASB in January 2016 and replaced IAS 17 Leases and IFRIC 4 on January 2019. The most significant change of IFRS 16 is related to leases that were identified as operational leases held by a lessee under IAS 17. Under IAS 17 these leases were reported as (off- balance) Operating lease obligations, and after January 1, 2019 reported as (on-balance) lease liabilities with the accompanying lease assets.

Aegon Nederland has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The accounting policy for leases applicable from January 1, 2019 is included in note 2.33 Leases.

<u>Transitional disclosures</u>

Aegon Nederland applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at January 1, 2019. As a lessee Aegon Nederland has adopted a number of key options and practical expedients allowed under IFRS 16 as disclosed in the 2018 consolidated financial statements.

<u>As a lessor</u>

As a lessor Aegon Nederland is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. Aegon Nederland accounted for its leases in accordance with IFRS 16 from the date of initial application.

<u>As a lessee</u>

Aegon Nederland has adopted a number of key options and practical expedients allowed under IFRS 16 of which the following are the most significant:

- Aegon Nederland applied the modified retrospective approach and therefore has not restated the comparative amounts for the year prior to initial application. Under this approach, on a lease-by-lease basis, the following two options are available: (i) right-of-use assets (mainly high value properties) measured on transition as if the new rules had always been applied, but discounted using the lessee' incremental borrowing rate at the date of initial application; or (ii) right-of-use assets measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). Aegon Nederland applied these two available options on a lease-by-lease basis;
- Aegon Nederland has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Aegon Nederland recognises the lease payments associated with these leases as an expense on a straight–line basis over the lease term;

- Aegon Nederland has elected to apply the 'grandfather' option, which means that all conclusions previously reached under IAS 17 (and IFRIC 4 Determining Whether an Arrangement Contains a Lease) are deemed compliant with IFRS 16;
- Aegon Nederland used hindsight in determining the lease term.

Impacts on financial statements
At transition, Aegon Nederland recognised right-of-use assets of approximately EUR 22 million and lease liabilities of EUR 22 million (adjusted for any prepaid or accrued lease expenses) on January 1, 2019. There was no impact on shareholders' equity. The right-of-use assets consist mostly of properties.

Interest rate benchmark reform
Aegon Nederland has elected to early adopt the 'Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed on January 1, 2019 or were designated thereafter.

The amendments provide temporary relief from applying specific hedge accounting requirements, thereby ensuring that uncertainty on the outcome of the Interest Rate Benchmark Reform (IBOR) reforms does not result in early termination of hedge accounting, notably because the retrospective effectiveness may fall outside of the required range due to the IBOR reform. Please refer to note 8 'Derivatives' for the required disclosures of the uncertainty arising from IBOR reform for hedging relationships for which the Group applied the reliefs. The IASB is currently working on additional amendments to IAS 39 and IFRS 9, which will include the accounting for contract modifications following IBOR reform. Aegon Nederland continues to follow the status of the IASB's IBOR reform project, and will assess the impact when further information becomes available.

2.1.2. Voluntary change in accounting policy effective in 2019
Effective January 1, 2019, Aegon Nederland has voluntarily changed its accounting policy related to the liability adequacy test (LAT). The recognition of a LAT deficit triggered a review and change of its existing accounting policy related to the LAT. When assessing the adequacy of the insurance liabilities, Aegon Nederland takes into account any unrecognized gains on investments backing the insurance liabilities measured at amortized cost.

The subsequent sales of these assets can trigger a LAT deficiency, previously unrecognized gains are realized and therefore no longer included in the LAT. Under the previous policy, unrealized gains on intercompany transferred assets which at balance date are allocated to the insurance liabilities were taken into account. Under the new policy the LAT takes into account the unrecognized gain on the transferred investments that are still held, but only to the extent that these gains arose whilst the assets were backing the insurance liabilities. Consistently, for assets transferred to the insurer from another company within Aegon Nederland, the unrecognized gain that arose prior to transfer is not taken into account in the LAT. The change avoids that unrealized gains on assets that are still held are not taken into account in the LAT.

The impact of the change in accounting policy on full year 2019, is an increase in net income of EUR 19 million, an increase in shareholder's equity EUR 19 million, a decrease in insurance contracts of EUR 25 million and an increase in other liabilities of EUR 6 million.

2.1.3. Future adoption of new IFRS-EU accounting standards and amendments

The following standards and amendments to existing standards, published prior to January 1, 2020, were not early adopted by Aegon Nederland, but will be applied in future years:

Accounting standard / amendment / interpretation	**IASB effective date**	**Endorsed by EU**	**Early adopted by the entity**	**Impact for the entity**
IFRS 17 Insurance contracts	January 1, 2021	Not yet	No	See below for comments
IFRS 9 Financial instruments	January 1, 2018 *	Yes	No	See below for comments
Amendment to IFRS 9 Financial instruments on prepayment features with negative compensation	January 1, 2018 *	Yes	No	See below for comments
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	Yes	No	Low
Amendment to IFRS 3 Business Combinations	January 1, 2020	Not yet	No	Low
Amendments to IAS 1 and IAS 8: Definition of Material	January 1, 2020	Yes	No	Low

(*) The amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, issued in September 2016, allow entities that issue insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 (and linked amendments 'Amendment to IFRS 9 Financial instruments on prepayment features with negative compensation' and 'Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures'). The amendments to IFRS 4 are further explained below.

<u>IFRS 9 Financial Instruments</u>
The IASB issued the complete version of IFRS 9 Financial Instruments in July 2014 which was endorsed by the European Union in November 2016. IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 and all previous versions of IFRS 9. Under IFRS 9 Classification and Measurement, financial assets are measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. The classification and measurement of financial liabilities is unchanged from existing requirements apart from own credit risk. For financial liabilities that are designated at fair value through profit or loss, the changes which are attributable to the change in an entity's own credit risk are presented in other comprehensive income, unless doing so would enlarge or create an accounting mismatch. For the impairment component, the IASB included requirements for a credit loss allowance or provision which should be based on expected losses rather than incurred losses.

Application of IFRS 9 is required for annual periods beginning on or after January 1, 2018. However, on May 18, 2017, the IASB published the final version of the IFRS 17 – Insurance Contracts standard. Prior to its finalization, the IASB issued an amendment to IFRS 4 – Insurance Contracts (the predecessor standard to IFRS 17) that provides for a qualifying insurer a temporary exemption that permits, but does not require, the insurer to apply IAS 39 Financial Instruments: Recognition and Measurement rather than IFRS 9 for annual periods beginning before January 1, 2021 (i.e., a temporary exemption of IFRS 9). The objective of the amendment is to address the temporary accounting consequences of the different effective dates of IFRS 9 and IFRS 17. This amendment was endorsed by the European Union in November 2017. However in November 2018, the IASB agreed to start the process to amend IFRS 17, which could lead to the temporary exemption from IFRS 9 to be extended until January 1, 2022.

At the IASB meeting on March 17, 2020, the IASB tentatively decided to defer the effective date of the IFRS 17 – Insurance Contracts standard (incorporating the amendments) to January 1, 2023, one year later than it originally proposed. It was also decided to extend the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual periods beginning on or after January 1, 2023. The IASB is expected to formally issue the amendments to IFRS 17 around the middle of 2020.

An entity is eligible to apply for the temporary exemption if the carrying amount of its liabilities connected with insurance activities is;

- greater than 90% of the total carrying value of all liabilities; or
- between 80% and 90% of the total carrying value of all liabilities, and the insurer does not have significant activities unrelated to insurance.

Aegon Nederland performed this analysis at December 31, 2015, and determined that 84% of its liabilities are connected to insurance activities. The 16% non-insurance activity related liabilities are mainly caused by the banking activities of subsidiary Aegon Bank and mortgage activities of subsidiary Aegon Hypotheken.

As a consequence Aegon Nederland assessed other quantitative (%equity, %net income, %employees) and qualitative factors (such as that the regulatory status of parent company is insurer and falls under insurance supervision of DNB). Based on that assessment Aegon Nederland concluded that it meets the requirements for the temporary exception. There are no (significant) changes in the activities of Aegon Nederland since the performance of this analysis. As a result, Aegon Nederland elected to defer implementation of IFRS 9 until January 1, 2022.

Aegon Nederland has determined that it does not engage in significant activities unconnected with insurance based on an assessment of mainly the following factors:

- its main subsidiaries, Aegon Levensverzekering, Aegon Spaarkas and Aegon Schadeverzekering, are all regulated insurance entities;
- its non-insurance subsidiaries, Aegon Bank and Aegon Hypotheken comprise a small portion of equity and a small portion of its workforce (all below 10%); and
- Aegon Nederland is a subsidiary of Aegon N.V., classified as a Global Systemic Important Insurer, and is therefore considered an insurer from a prudential supervision perspective

As Aegon Nederland defers the application of IFRS 9 (including linked amendments as included in the above table), the full impact of the standard is not yet clear, however an initial impact assessment resulted in the expectation that it will have a significant impact on shareholders' equity, income and/or other comprehensive income and disclosures. An implementation project has started in 2017 and is combined with the implementation of IFRS 17 Insurance Contracts.

The majority of Aegon Nederland's equity accounted investments remain to apply IAS 39, however Amvest Vastgoed B.V. ('Amvest') applies IFRS 9. This is the basis used to determine the book value which is permitted following the temporary exemption of the IFRS 4 amendment. Information on the adoption of IFRS 9 for Amvest can be found in their respective statutory annual report. Except Amvest, Aegon does not hold any other individually material joint-venture nor associate.
By qualifying for and electing the temporary exemption, the IFRS 4 amendment requires certain additional disclosures; specifically, Aegon Nederland is required to disclose information to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. This information is presented below:

Fair value changes
The table below presents an overview of the fair value of the classes of financial assets as of December 31, 2019, as well as the change in fair value during the reporting period. The asset classes are divided into two categories:

i. SPPI: assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount , excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis; and,
ii. Other: all financial assets other than those specified in SPPI, financial assets:
   a) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
   b) that meet the definition of held for trading in IFRS 9; or,
   c) that are managed and whose performance are evaluated on a fair value basis.

		Fair value 31-12-2019	Change in FV 2019	Fair value 31-12-2018	Change in FV 2018
Debt securities	SPPI	19.533	1.050	19.832	186
	Other	68	-	148	34
Mortgage loans	SPPI	33.111	494	31.686	-1.089
	Other	-	-	-	-
Private loans	SPPI	5.109	284	4.452	-63
	Other	-	-	-	-
Deposits with financial institutions	SPPI	46	-	46	-
	Other	-	-	-	-
Policy loans	SPPI	-	-	-	-
	Other	1	-	1	-
Other investments	SPPI	-	-	-	-
	Other	265	-	238	-2
Loans and group loans	SPPI	913	-	583	-
	Other	-	-	-	-
Total		**59.047**	**1.827**	**56.986**	**-934**

Cash and cash equivalents, deposits with financial institutions, and receivables all pass the SPPI test and are held at amortized cost, whereby the amortized cost is assumed to approximate fair value due to the short-term nature of the assets. For movement schedules of these financial assets, refer to respective notes.

The fair value at the end of the reporting period in the table reconciles to the respective table in the fair value note.

Credit risk
The table below details the credit risk rating grades, as of December 31, 2019, for financial assets with cash flows that are SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis. The tables show the carrying value of those financial assets applying IAS 39 (in the case of financial assets measured at amortized cost, before adjusting for any impairment allowances).

2019	Debt securities	Mortgage loans	Private loans	Deposits with financial institutions	Loans and group loans	Total
AAA	13.248	-	1.799	-	-	15.046
AA	4.266	-	82	-	-	4.348
A	1.249	-	47	-	913	2.209
BBB	734	-	970	-	-	1.704
BB	36	-	49	-	-	84
B	-	-	-	-	-	-
CCC or lower	-	-	-	-	-	-
Without external rating (not rated)	-	29.567	1.495	46	-	31.108
Total	**19.533**	**29.567**	**4.440**	**46**	**913**	**54.500**

2018	Debt securities	Mortgage loans	Private loans	Deposits with financial institutions	Loans and group loans	Total
AAA	12.756	-	1.611	-	-	14.367
AA	5.092	-	83	-	-	5.175
A	1.352	-	55	-	583	1.990
BBB	622	-	924	-	-	1.546
BB	3	-	52	-	-	55
B	-	-	-	-	-	-
CCC or lower	-	-	-	-	-	-
Without external rating (not rated)	-	28.636	1.342	46	-	30.024
Total	**19.825**	**28.636**	**4.067**	**46**	**583**	**53.157**

As no external ratings are available for Aegon Nederland's mortgage loans, the full portfolio is included under 'Not rated'.

For assets that do not have low credit risk and of which cash flows represent SPPI (rated BB or below), excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides the credit risk exposure from the financial assets held by Aegon Nederland. The financial assets are categorized by asset class with a carrying amount and fair value measured in accordance with IAS 39 measurement requirements.

	Carrying amount 31-12-2019	Fair value 31-12-2019	Carrying amount 31-12-2018	Fair value 31-12-2018
Debt securities	35	36	3	3
Private loans	49	50	52	50
Total	**84**	**86**	**55**	**53**

Given the absence of external ratings for Aegon Nederland's mortgage portfolio, non-performing mortgage loans are included in the table above to reflect exposure to mortgage loans that do not have low credit risk. Non-performing is defined as more than 90 days past due in line with regulatory guidelines.

Given the absence of external ratings for Aegon Nederland's mortgage portfolio, IFRS 9 staging is applied to indicate whether a mortgage loan does not have low credit risk in the table above. As such, a mortgage loan is determined to not have low credit risk when there has been a significant increase in credit risk since initial recognition (Stage 2) or when it is in default (Stage 3).

Subsidiaries and joint ventures applying IFRS 9 in their statutory accounts
Information on the adoption of IFRS 9 by principal subsidiaries that for statutory purposes cannot elect to defer the effective date of IFRS 9 can be found in the publicly available statutory annual report on www.aegon.nl. This relates to Aegon Bank and Aegon Hypotheken.

Aegon Nederland applies the exemption under IFRS 4 from certain requirements in IAS 28 for its joint venture in Amvest. Under this exemption, Aegon Nederland applies IAS 39 under the temporary exemption from applying IFRS 9. When accounting for the investment in Amvest under the equity method, the IAS 39 figures of Amvest are used. There are no differences between the IAS 39 and IFRS 9 figures of Amvest. For statutory purposes Amvest cannot elect to defer the effective date of IFRS 9; information on the adoption of IFRS 9 for Amvest can be found in their respective statutory annual report.

IFRS 17 Insurance Contracts
The IASB issued IFRS 17 Insurance Contracts in May 2017. This is not yet endorsed by the European Union. The Standard will replace IFRS 4, which was intended as an interim solution and allowed insurers to continue to use accounting principles that they had applied prior to the initial adoption of IFRS. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participating features issued. The objective of the Standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information should provide users of financial statements with a basis to assess the effects that the contracts have on the financial position, financial performance and cash flows of the insurer. The Standard also specifies presentation and disclosure requirements to enhance comparability between insurance companies.

In November 2018, the IASB agreed to start the process to amend IFRS 17 to defer the mandatory effective date of IFRS 17 by one year (original effective date was January 1, 2021). Subject to IASB due process, entities will be required to apply IFRS 17 for annual periods beginning on or after January 1, 2022. The IASB noted that given the considerations to propose amendments to IFRS 17 of June 2019, and in light of the criteria for assessing them, any such potential amendments could take a year to finalize

At the IASB meeting on March 17, 2020, the IASB tentatively decided to defer the effective date of the IFRS 17 – Insurance Contracts standard (incorporating the amendments) to January 1, 2023, one year later than it originally proposed. It was also decided to extend the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual periods beginning on or after January 1, 2023. The IASB is expected to formally issue the amendments to IFRS 17 around the middle of 2020.

The Standard represents a fundamental change to current financial reporting and the implementation effort is expected to be significant. Early adoption of the standard is therefore not expected. An implementation project was started soon after the publication of the new Standard. Currently no final decisions have been made as to the accounting policy options provided in IFRS 17 as a consequence of awaiting the final amendments and the outcome of quantitative studies intended to be performed subsequently. However, it is expected that the impact of the initial application on Aegon Nederland's financial statements is significant.

2.2. Basis of consolidation

2.2.1. Investment funds
Investment funds managed by Aegon Nederland in which Aegon Nederland holds an interest are consolidated in the financial statements if Aegon Nederland has power over that investment fund and it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, all interests held by Aegon Nederland in the fund are considered, regardless of whether the financial risk related to the investment is borne by Aegon Nederland or by the policyholders.

In determining whether Aegon Nederland has power over an investment fund all facts and circumstances are considered, including the following:
- Control structure of the asset manager (i.e. whether an Aegon Nederland subsidiary);
- The investment constraints posed by investment mandate;
- Legal rights held by the policyholder to the separate assets in the investment vehicle (e.g. policyholders could have the voting rights related to these investments);
- The governance structure, such as an independent board of directors, representing the policyholders, which has substantive rights (e.g. to elect or remove the asset manager);and
- Rights held by other parties (e.g. voting rights of policyholders that are substantive or not).

Exposure or rights to variability of returns can be the result of, (for example):

- General account investments of Aegon Nederland;
- Aegon Nederland's investments held for policyholders;
- Guarantees provided by Aegon Nederland on return of policyholders in specific investment vehicles;
- Fees dependent on fund value (including, but not limited to, asset management fees); and
- Fees dependent on performance of the fund (including, but not limited to, performance fees).

Aegon Nederland concluded, for all investment funds, that it does not exercise control, as Aegon Nederland has no power over the asset manager (key decision maker).

Participations in investment funds held for general account are recognized as equity investments. Investments in venture capital entities, mutual funds and investment funds are managed on the basis of market value and accounted for as financial assets at fair value through profit or loss. Participations in investment funds are regarded as part of the investment portfolio. The income from these investment funds is recognized as investment income.

Participations in investment funds held for account of policyholders are accounted for as 'investments for account of policyholder' and measured at Fair Value Through profit or loss.

2.2.2. Subsidiaries

Subsidiaries (including structured entities) are entities over which Aegon Nederland has control. Aegon Nederland controls an entity when Aegon Nederland is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assessment of control is based on the substance of the relationship between Aegon Nederland and the entity and, among other things, considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the accounting principles of Aegon Nederland. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the share of Aegon Nederland in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair values of the assets, liabilities and contingent liabilities, acquired in the business combination, have been determined provisionally, adjustments to these values, resulting from the emergence of new evidence within twelve months after the acquisition date, are made against goodwill. Aegon Nederland recognized contingent considerations either as provision or as financial liability depending on the characteristics. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds plus the fair value of any retained interest and the carrying amount of the subsidiary including non-controlling interests is recognized in the income statement.

2.2.3. Structured entities

A structured entity is defined as "An entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements."

Structured entities that are consolidated include certain mortgage backed securitization deals, where Aegon Nederland was involved in the design of the structured entities and also has the ability to use its power to affect the amount of the investee's returns. Other factors that contribute to the conclusion that consolidation of these entities is required includes consideration of whether Aegon Nederland fully services the investees and can therefore influence the defaults of the mortgage portfolios and the fact that in these cases the majority of risks are maintained by Aegon Nederland.

Structured entities that are not consolidated include general account investments in non-affiliated structured entities that are used for investment purposes.

2.3. Foreign exchange translation

The consolidated financial statements are presented in euro, which is Aegon Nederland's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Aegon Nederland does not have investments in subsidiaries of which the functional currency is not the euro.

At the reporting date, monetary assets and monetary liabilities in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date, Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow. Exchange differences on non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistently with other gains and losses on these items.

The impact of foreign currency on the financial statements is considered immaterial as virtually all transactions take place in euro.

2.4. Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Aegon Nederland has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterpart.

2.5. Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from date of acquisition that are readily convertible to known cash amounts. They are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments or investments for account of policyholders.

2.6. Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and investments in investment funds.

2.6.1. Financial assets, excluding derivatives

Financial assets are recognized on the trade date when Aegon Nederland becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The following financial assets are measured at fair value through profit or loss (FVTPL): financial assets held for trading, financial assets managed on a fair value basis in accordance with the investment strategy of Aegon Nederland; and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Nederland designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments, that are not quoted in an active market and that Aegon Nederland does not intend to sell in the near future are classified as loans. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as available-for-sale. All remaining non-derivative financial assets are classified as available-for-sale.

Measurement

Financial assets are initially recognized at fair value plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Loans are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in other comprehensive income. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Amortized cost

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Fair value

The financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the fair values are provided in the notes to the financial statements.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics.

The valuation techniques that include unobservable inputs can result in a different outcome than the actual transaction price at which the asset was acquired. Such differences are not recognized in the income statement immediately but are deferred. They are released over time to the income statement in line with the change in factors (including time) that market participants would consider in setting a price for the asset. Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognized when the contractual rights to the asset’s cash flows expire or when Aegon Nederland retains the right to receive cash flows from the asset but has an obligation to pay any received cash flows in full without delay to a third party and either has transferred the asset and substantially all the risks and rewards of ownership, or has neither transferred nor retained all the risks and rewards but has transferred control of the asset.

Financial assets of which Aegon Nederland has neither transferred nor retained significantly all the risk and rewards and retained control are recognized to the extent of Aegon Nederland’s continuing involvement. If significantly all risks are retained, the assets are not derecognized.

On derecognition, the difference between the disposal proceeds and the carrying amount is recognized in the income statement as a realized gain or loss. Any cumulative unrealized gain or loss previously recognized in the revaluation reserve in shareholders’ equity is also recognized in the income statement.

Securities lending and repurchase agreements

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as Aegon Nederland retains substantially all the risks and rewards of the asset. A liability is recognized for cash (collateral) received, on which interest is accrued.

A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash (collateral) paid by Aegon Nederland. The difference between sale and repurchase price is treated as investment income. If Aegon Nederland subsequently sells that security, a liability to repurchase the asset is recognized and initially measured at fair value.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure defaults. When cash collateral is recognized, a liability is recorded for the same amount.

2.6.2. Real estate

Investments in real estate include property held to earn rentals or for capital appreciation, or both. Investments in real estate are presented as 'Investments'. Property that is occupied by Aegon Nederland and that is not intended to be sold in the near future is classified as real estate held for own use and is presented in 'Other assets and receivables.'

All property is initially recognized at cost (including purchase expenses like transfer tax, broker fees, civil notary, if applicable). Subsequently, investments in real estate are measured at fair value with the changes in fair value recognized in the income statement.

Investments in real estate are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognized in the income statement in the year of exderecognition.

Investment property is revalued periodically by external valuators. The revaluation are performed by an independent valuators who hold a recognised and relevant professional qualification and have recent epxerience in the location and category of the investment property being valued.

Fair value is based on quarterly external appraisals and updates of the appraised portfolio by independent external appraisers, based on the MSCI guidelines. The full portfolio is externally appraised every quarter. A representative part of 25% of the total portfolio is appraised by a full valuation, and the remaining portfolio (75%) is updated at the same time using a desktop valuation. The appraisals are based on both the yield method (BAR/NAR[1]) and a DCF calculation with an average discount rate of 5.4% (2018: 5.8%). The yield method on MSCI guidelines is based on:

- cash flows estimated on the basis of market rent;
- allowable deductions for owners' charges in line with market conditions;
- capitalization at net initial yields (minus purchasing costs payable by the purchaser) of similar transactions;
- adjusting entries for (initial) vacancy, overdue maintenance, and future renovations. Investments made in existing properties since the last appraisal was carried out are capitalized at cost price in addition to the carrying amount of the investment until the next appraisal. In the income statement, changes in fair value are recorded as gains / (losses) on investments.

Property under construction

Aegon Nederland is involved in developing property activities, through the joint venture Amvest Development Fund B.V., with the intention to hold it as investments in real estate.

Property under construction is initially valued at directly attributable costs, plus a premium on the amount invested to cover internal expenses. Upon completion, the property is carried at fair value, or at an earlier time when the fair value can be determined reliably.

2.7. Investments for account of policyholders

Investments held for account of policyholders consist of investments in financial assets, as well as investments in real estate. Investment return on these assets is passed on to the policyholders. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties. Investments for account of policyholders are valued at fair value through profit or loss.

[1] Bruto Aanvangsrendement/ Netto Aanvangsrendement

2.8. Derivatives

2.8.1. Definition

Derivatives are financial instruments of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date. Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, Aegon Nederland considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant insurance risk are accounted for as insurance contracts.

2.8.2. Measurement

All derivatives recognized on the statement of financial position are carried at fair value. The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible. Fair value changes are recognized in the income statement.

2.8.3. Hedge accounting

As part of its asset liability management, Aegon Nederland enters into economic hedges to limit its risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item. Aegon Nederland currently applies hedge accounting for fair value hedges.

<u>Fair value hedges</u>
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the income statement, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortized through the income statement over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

Aegon Nederland applies fair value hedge accounting to portfolio hedges of interest rate risk (fair value macro hedging) under the EU ‘carve out’ of IFRS-EU. The EU ‘carve out’ macro hedging enables a group of derivatives (or proportions thereof) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting. Under the EU ‘carve out’, ineffectiveness in fair value hedge accounting only arises when the revised projection of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU ‘carve out’ to mortgage loans. Changes in the fair value of the derivatives are recognized in the income statement, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

2.9. Investment in joint arrangements and associates

2.9.1. Joint arrangements

Joint arrangements are contractual agreements whereby Aegon Nederland undertakes with other parties an economic activity that is subject to joint control. Joint control exists when it is contractually agreed to share control over an economic activity. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Aegon Nederland has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in joint ventures are accounted for using the equity method (see below),after initially being recognized at cost in the consolidated balance sheet.

On disposal of an interest in a joint venture, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

2.9.2. Associates

Associates are all entities over which Aegon Nederland has significant influence but not control. Significant influence generally results from a shareholding of 20% or more of the voting rights,
but also the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:

- Representation on the board of directors
- Participation in the policy making process
- Interchange of managerial personnel

Entities over which Aegon Nederland has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary, are accounted for using the equity method. Interests held by Aegon Nederland in venture capital entities, mutual funds and investment funds that qualify as an associate are accounted for as an investment held at fair value through profit or loss. Interests held by Aegon Nederland in venture capital entities, mutual funds and investment funds that are managed on a fair value basis, are also accounted for as investments held at fair value through profit or loss.

Investments in associates are accounted for using the equity method (see below),after initially being recognized at cost in the consolidated balance sheet.

On disposal of an interest in an associate, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

2.9.3. Equity method

Under the equity method of accounting, the investments are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If joint ventures and associates are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the share of Aegon Nederland in the net assets of the joint venture or associate and is subject to impairment testing. The net assets are determined based on the accounting policies of Aegon Nederland. Any gains and losses recorded in other comprehensive income by the joint venture or associate are recognized in other comprehensive income and reflected in the revaluation reserves in shareholders' equity, while the share in the joint venture's or the associate's net income is recognized as a separate line item in the consolidated income statement. The share in losses of Aegon Nederland is recognized until the investment in the joint ventures' or associate's equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between Aegon Nederland and the joint ventures and associates are eliminated to the extent of the interest in the entity of Aegon Nederland, with the exception of losses that are evidence of impairment, which are recognized immediately.

2.10. Deferred expenses

2.10.1. Deferred Policy Acquisition Costs (DPAC)

DPAC relates to all insurance contracts as well as investment contracts with discretionary participation features and represents directly attributable costs that are related to the selling, underwriting and initiating of these insurance contracts. Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on factors such as expected gross profit margins. For all products, DPAC, in conjunction with VOBA where appropriate, is assessed for recoverability at least annually as part of the liability adequacy test for each reporting period. The portion of DPAC that is determined not to be recoverable is charged to the income statement. DPAC is derecognized when the related contracts are settled or disposed of.

2.10.2. *Deferred cost of reinsurance*
A deferred cost of reinsurance is established when Aegon Nederland enters into a reinsurance transaction, except for reinsurance transactions that are entered into as part of a plan to exit a business. When Aegon Nederland enters into a reinsurance contract as part of a plan to exit a business, an immediate loss is recognized in the income statement. Upon reinsurance, Aegon Nederland is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the contractual term of the underlying contracts. The difference, if any, between amounts paid in a reinsurance transaction and the amount of the liabilities relating to the underlying reinsured contracts is part of the deferred cost of reinsurance. When losses on buying reinsurance are deferred, the amortization is based on the assumptions of the underlying insurance contracts. The amortization is recognized in the income statement.

2.11. Other assets and receivables
Other assets and receivables include real estate held for own use, equipment, trade and other receivables, and prepaid expenses. Trade and other receivables and prepaid expenses are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Equipment is initially carried at cost, depreciated on a straight line basis over its useful life to its residual value and is subject to impairment testing.

2.11.1. *Real estate held for own use*
Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of a building. Land is not depreciated.

Real estate held for own use is revalued at least once in three years, based on appraisals by independent external valuators. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount. Revaluation of real estate for own use is recognised in other comprehensive income and accumulated in revaluation reserve in equity. On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognized in the income statement. Any remaining surplus attributable to real estate in own use in the revaluation reserve is transferred to retained earnings.

2.12. Intangible assets

2.12.1. *Goodwill*
Goodwill is recognized as an intangible asset for interests in subsidiaries and is measured as the positive difference between the consideration transferred to acquire the business and the Aegon Nederland's interest in the net fair value of the entity's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary is disposed.

2.12.2. *Software and other intangible assets*
Software and other intangible assets, such as Value of Business acquired (VOBA), are recognized to the extent that the assets can be identified, are controlled by Aegon Nederland, are expected to provide future economic benefits and can be measured reliably.

Software and other intangible assets with finite useful lives are measured at cost. less accumulated amortization and any accumulated impairment losses. Amortization of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The amortization period and pattern are reviewed at each reporting date, with any changes recognized in the income statement. An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

2.13. Impairment of assets
Assets are tested individually for impairment when there are indications that the asset may be impaired. An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets with an indefinite useful life that are not amortized are tested at least annually.

2.13.1. Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. For goodwill and intangible assets with an indefinite life, an impairment test is performed at least once a year or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its fair value less cost of disposal. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties. The valuation utilizes the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates.

Impairment losses are charged to other comprehensive income to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement.

With the exception of goodwill, impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the asset's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

Non-financial assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. The allocation is based on the level at which goodwill is monitored internally. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets' recoverable amounts.

2.13.2. Impairment of debt instruments

Debt instruments are impaired if there is objective evidence that a credit event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset.

For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized loss previously recognized in other comprehensive income is taken to the income statement in the impairment loss.

Impairment losses can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be objectively related to a credit event occurring after the impairment was recognized.

2.13.3. Impairment of equity instruments

For equity instruments, objective evidence of impairment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, indicates that the cost of the investment in the equity instrument may not be recovered.

A significant or prolonged decline in fair value below initial cost is also considered objective evidence of impairment and always results in a loss being recognized in the income statement. Significant or prolonged decline is defined as an unrealized loss position for generally more than six months or a fair value of less than 80% of the cost price of the investment. Equity investments are impaired to the asset's fair value and any unrealized gain or loss previously recognized in shareholders' equity is taken to the income statement as an impairment loss. The amount exceeding the balance of previously recognized unrealized gains or losses is recognized in the income statement.

If an available-for-sale equity security is impaired, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Impairment losses on equity instruments cannot be reversed.

2.14. Equity

Share capital is stated at par value. The share premium reserve, relates to capital contributions which have occurred since incorporation without issuing new shares. The revaluation reserves comprise unrealized gains and losses on available-for-sale investments and on real estate held for own use, net of tax. Upon sale of available-for-sale securities, the realized result is recognized through the income statement. Upon sale of real estate held for own use, the cumulative revaluation is taken direct to retained earnings. In the event of impairments, the unrealized loss is recognized through the income statement.

Dividends and other distributions to holders of equity instruments are recognized directly in equity. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.

2.15. Insurance contracts

Insurance contracts are accounted for under IFRS 4 – Insurance Contracts. In accordance with this standard, Aegon Nederland continues to apply the existing accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by IFRS 4 for standards effective subsequent to adoption. Aegon Nederland applies in general, non-uniform accounting policies for insurance liabilities and insurance related intangible assets to the extent that it was allowed under Dutch Accounting Principles. If any changes are made to current accounting policy for insurance contracts, these will be in accordance with IFRS 4.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by Aegon Nederland prior to the transition to IFRS and with consideration of changes to standards effective subsequent to the date of transition to IFRS, as further described in the following paragraphs. The valuation methods are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

Insurance contracts are contracts under which Aegon Nederland accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. Aegon Nederland reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which Aegon Nederland has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance contracts are not reclassified subsequently.

Insurance liabilities are recognized when the contract is entered into and premiums have started being charged. The liability is derecognized when the contract expires, is discharged, disposed or cancelled. Substantially modified contracts are accounted for as an extinguishment of the original liability and the recognition of a new liability.

Insurance contracts are recognized as of the beginning of the coverage period. If the coverage period commences before all legal documents are signed and returned, the insurance contract shall still be recognized, if the amount of revenue can be measured reliably:
and if it is probable that the economic benefits associated with the transaction will flow to the entity. In the unlikely event of an onerous contract, this contract is to be recognized at the earliest date of:

(a) the beginning of the coverage period or
(b) the date on which both parties have agreed to the terms (the same guidance as for profitable contracts applies).

2.15.1. Life insurance contracts

Life insurance contracts are insurance contracts with life-contingent benefits. The measurement of the liability for life insurance contracts varies depending on the nature of the product.

Liabilities arising from traditional life insurance products that are offered by Aegon Nederland, particularly those with fixed and guaranteed account terms, are typically measured using the net premium method. Under this method, the liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is based on current assumptions, although for the discount rate a fixed 3% or 4% is used. Furthermore, the liability for life insurance comprises reserves for unearned premiums and accrued annuity benefits payable.

The liability for life insurance products includes the provision for future administration expenses, formed to cover the expected future expenses with respect to the period after premium payment, as well as a provision with respect to future expenses associated with processing benefits (such as annuities and pension payments).

Terms and conditions, including participation features, are considered when establishing the insurance liabilities. Where Aegon Nederland has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the balance sheet date for future distribution to policyholders.

In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in note 2.15.4 'Embedded derivatives' or, if bifurcated from the host contract, as described in note 2.8 'Derivatives'.

2.15.2. Deferred interest contracts

A rebate granted and/or future interest compensation granted during the year is a form of profit sharing whereby Aegon Nederland applies a correction to the premium payable based on the expected (surplus or deficit) interest that will be earned on the contract. The expected interest is calculated with reference to a portfolio of government bonds. The rebate can be subject to additional conditions concerning actual returns or the continuation of the policy for a specified number of years.

Rebates granted and/or future interest compensation granted during the year that are expected to be recovered in future periods are deferred and amortized on a straight line basis as the surplus or deficit interest is realized. The amortization is recognized in the income statement in 'Policyholder claims and benefits'. Interest rebates form part of the insurance contract liability.

Deferred rebates granted and/or future interest compensation granted during the year are derecognized when the related contracts are settled or disposed of.

2.15.3. Life insurance contracts for account of policyholders

Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders. These are measured at the policyholders account balance. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. In addition, the measurement of these insurance contracts also include provisioning for expected additional costs, such as expenses and longevity.

2.15.4. Embedded derivatives

Life insurance contracts may include derivative-like terms and conditions. With the exception of policyholder options to surrender the contract at a fixed amount, contractual features that are not closely related to the insurance contract and that do not themselves meet the definition of insurance contracts are accounted for as derivatives.

Guaranteed minimum benefits

Certain life insurance contracts contain guaranteed minimum benefits. Bifurcated guaranteed minimum benefits are classified as derivatives. An additional liability is established for guaranteed minimum investment returns on group pension plans with profit sharing and on traditional insurance contracts with profit sharing based on an external interest index, that are not bifurcated. These guarantees are measured at fair value.

2.15.5. Shadow accounting

Shadow accounting allows that all gains and losses on investments to affect the measurement of the insurance assets and liabilities in the same way, regardless of whether they are realized or unrealized and regardless of whether the unrealized gains and losses are recognized in the income statement or through other comprehensive income in the revaluation reserve. In some instances, realized gains or losses on investments have a direct effect on the measurement of the insurance assets and liabilities. In addition, realization of gains or losses on available-for-sale investments can lead to unlocking deferred expenses and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. For similar changes in unrealized gains and losses, shadow accounting is applied. If interest rate movement resulting in an unrealized gain or loss triggers a shadow accounting adjustment to deferred expenses or the insurance liabilities, the corresponding adjustment is recognized through other comprehensive income in the revaluation reserve, together with the unrealized gain or loss.

2.15.6. Non-life insurance contracts

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels and outstanding claims and benefits. No catastrophe or equalization reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally, the reserve is released over the coverage period of the premium and is recognized as premium income on a linear basis.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation.

Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied when measuring these insurance liabilities when there is a high level of certainty concerning the amount and settlement term of the cash outflows.The margin for risk represents the cost of capital held for un-hedgeable financial and underwriting risks.

The insurance liability for periodic payments ('Arbeidsongeschiktheidsverzekering' (AOV)) is calculated on an 'item by item' basis. For AOV Individual contracts, the liability is discounted at a 3% discount rate. With respect to AOV group contracts as well as the WIA ('Wet Inkomen en Arbeid') contracts, the claims regarding long-term sick leave (>2 years) are calculated on an 'item by item' based on empirical data and information from the industry and discounted with Aegon Schadeverzekering's LAT curve. The LAT curve is constructed using 6 months swaps until the last liquid point of 30 years.

2.15.7. Liability Adequacy Test

Liability Adequacy Test (LAT) with respect to life insurance contracts
At each reporting date, the adequacy of the life insurance liabilities (including life insurance contracts for account of policyholders), net of value of business acquired and deferred expenses, is assessed. The liability is considered to be "adequate" if the current estimate of all contractual future cash flows is less than the insurance liability plus the difference between carrying value and fair value of certain investments.

All tests performed are based on current estimates of all contractual future cash flows, including related cash flows from policyholders' options and guarantees. A number of valuation methods are applied, including discounted cash flow methods, option pricing models, stochastic modelling and future claim handling costs.

Aggregation levels are set at the level of portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio. Diversification benefits on the level of the group are taken into account. To the extent that the tests involve discounting of future cash flows, the interest rate applied is based on market rates or is based on the expectation of the future return on investments. These future returns on investments take into account management's best estimate related to the actual investments and, where applicable, reinvestments of these investments at maturity.

Aegon Nederland adjusts the outcome of the liability adequacy test for the difference between the fair value and the book value of the assets that are measured at amortized cost in the statement of financial position. Only differences between the fair value and the book value build up during the period when the asset were allocated to the insurance portfolio are included in the LAT.

To the extent that the account balances are insufficient to meet future benefits and expenses, we apply in principle shadow loss recognition. Any remaining deficiency is recognized in the income statement, either by impairing the DPAC and VOBA or by establishing an insurance liability for the entire remaining deficiency. Additions to the insurance liability under the liability adequacy test can be reversed in subsequent periods when they have proven to be no longer necessary.

The assumptions in the liability adequacy test contain a margin for risk. The risk margin is determined according to the cost of capital method. Only differences between the fair value and the book value build up during the period when the asset were allocated to the insurance portfolio are included in the LAT.

The estimates used in de liability adequacy test, are based on the following items:
- Mortality tables that take into account expected future changes in life expectancy (the Aegon prospective mortality table);

- A swap curve with a liquidity spread, and including an ultimate forward rate (UFR), to discount future cash flows;
- Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation.

Shadow loss recognition
While using market interest rates for the valuation of debt securities will lead to a change in the revaluation reserve and comprehensive income, the result of using the same assumptions on the liabilities could lead to a deficiency in the liability adequacy test that should be recognized in the income statement. The deficiency of insurance liability triggered by a decrease in interest rates is offset against the revaluation reserves to the extent that the revaluation reserve on debt securities will not become negative. If in subsequent periods such a deficiency of the insurance liability is no longer applicable, shadow loss recognition is reversed through the revaluation reserve. See note 3.2 ‘Valuation of assets and liabilities arising from life insurance contracts’ for more information on the applied interest yield and mortality tables.

Liability Adequacy Test with respect to non-life insurance contracts
At each reporting date, the adequacy of the non-life insurance liabilities is assessed. The liability is considered to be "adequate" if the current estimate of all contractual future cash flows is less than the insurance liability plus the difference between carrying value and fair value of certain investments. To the extent that the account balances are insufficient to meet future claims and expenses, additional liabilities are established and included in the liability for non-life insurance.Additions to the insurance liability under the liability adequacy test can be reversed in subsequent periods when they have proven to be no longer necessary.

2.16. Savings deposits

Savings deposits are stated at amortized cost (net of accrued interest). Accrued interest is recognized in the consolidated statement of financial position under 'other liabilities and accruals'. The balances are largely repayable on demand.

2.17. Investment contracts

Contracts that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to Aegon Nederland are accounted for as investment contracts. Depending on whether Aegon Nederland or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as ‘investment contracts’ or as ‘investment contracts for account of policyholders’. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged, cancelled or substantially modified. Investment contracts are measured at amortized cost.

2.18. Investment contracts for account of policyholders

Investment contracts for account of policyholders are investment contracts for which the actual return on investments allocated to the contract is passed on to the policyholders. Investment contracts for account of policyholders are designated at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

2.19. Borrowings and group loans

Borrowings and group loans are initially recognized at their fair value excluding accrued interest and including directly attributable incremental transaction costs and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are measured at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried at fair value as part of a fair value hedge relationship. Borrowings and group loans are derecognized when Aegon Nederland’s obligation under the contract expires or is discharged or cancelled.

2.20. Provisions

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risks and uncertainties, as well as the time value of money. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

Onerous contracts
With the exception of insurance contracts and investment contracts with discretionary participation features for which potential future losses are already considered in establishing the liability, a provision is recognized for onerous contracts in which the unavoidable cost of meeting the resulting obligations exceed the expected future economic benefits. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

2.21. Assets and liabilities relating to employee benefits

2.21.1. Short-term employee benefits

A liability is recognized for the undiscounted amount of short-term employee benefits expected to be settled within one year after the end of the period in which the service was rendered. Accumulating short-term absences are recognized over the period in which the service is provided. Benefits that are not service-related are recognized when the event that gives rise to the obligation occurs.

2.21.2. Post-employment benefits

Aegon Nederland has issued defined contribution plans and defined benefit plans. A plan is classified as a defined contribution plan when Aegon Nederland has no further obligation than the payment of a fixed contribution. All other plans are classified as defined benefit plans.

Defined contribution plans

The contribution payable to a defined contribution plan for services provided is recognized as an expense in the income statement. An asset (or liability) is recognized to the extent that the contribution paid exceeds (or fall short of) the amount due for services provided.

Defined benefit plans

The defined benefit obligation is based on the terms and conditions of the plan applicable on the balance sheet date. In measuring the defined benefit obligation Aegon Nederland uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables.

The benefits are discounted using an interest rate based on the market yield for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, estimated future wage inflation, mortality rates and price inflation.

Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the creditors of Aegon Nederland. They are measured at fair value and are deducted from the defined benefit obligation in determining the amount recognized on the statement of financial position.

Assets held by Aegon Nederland backing the retirement benefits do not meet the definition of plan assets and as such were not deducted from the defined benefit obligation. Instead, these assets are recognized as general account assets. Consequently, the expected return on these assets also does not form part of the calculation of defined benefit expenses.

Plan improvements (either vested or unvested) are recognized in the income statement at the date when the plan improvement occurs.

The costs of the defined benefit plans are determined at the beginning of the year. The current year service cost and the net interest on the net defined benefit liability (asset) are recognized in the income statement.

Any employee contributions are deducted from the current year service cost. Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the applicable discount rate. Net interest on the net defined benefit liability (asset) comprises interest income on plan assets and interest expenses on the defined benefit obligation. Whereby interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the applicable discount rate. The difference between the interest income on plan assets and the actual return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset) which are recognized in other comprehensive income are revisited quarterly. Remeasurements of the net defined benefit liability (asset) shall not be reclassified to profit or loss in a subsequent period. Remeasurements of the net defined benefit liability (asset) comprise of theactuarial gains and losses; the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Past service cost is the increase in the present value of the defined benefit obligation for employee service, resulting from a plan amendment or curtailment.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized in the income statement when the curtailment or settlement occurs. Gains or losses on curtailments or settlements of a defined benefit plan comprise of the difference between:

- The present value of the defined benefit obligation being settled, as determined on the date of settlement; and
- The settlement price, including any plan assets transferred and any payments made directly by Aegon Nederland in connection with the settlement.

2.21.3. Share-based payments

Aegon Nederland operates share-based plans applicable to the Aegon N.V. Group that entitle employees to receive equity instruments over common shares of the parent company Aegon N.V.

For the share-based plans where employees are granted the conditional right to receive Aegon N.V. shares if certain performance indicators are met and depending on continued employment of the individual employee, expenses recognized are based on the fair value of the shares. The fair value is measured at the market price of the entities shares, adjusted to take into account the non-vesting and market conditions upon which the shares were granted. For example, where the employee is not entitled to receive dividends during the vesting period, this factor is taken into account when estimating the fair value of the shares granted. For the determination of factors such as expected dividends, market observable data has been considered.

All of the share-based plans operated are settled by Aegon Nederland in shares of Aegon N.V. or in cash and are therefore recognized as cash-settled share based payment transactions.

For these cash settled plans a liability is recognized using the fair value based on the elapsed portion of the vesting period. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

2.22. Tax assets and liabilities

Corporate income tax assets and liabilities are amounts payable to and receivable from Aegon N.V., since Aegon N.V. is the head of the tax group. Aegon Global Investment Fund B.V. is not part of the group of companies included Aegon N.V. tax group. The results from Optas Pensioenen N.V., which has legally merged with Aegon Levensverzekering N.V. as of January 1, 2019, were exempt from paying corporate income tax up to April 1, 2019.

2.22.1. Current tax assets and liabilities

Corporate income tax assets and liabilities for current and prior periods are measured at the amount expected to be received from or paid to the taxation authorities, applying the tax rates that have been enacted or substantively enacted by the reporting date.

Aegon Nederland is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Aegon Nederland is jointly and severally liable for all tax liabilities of the entire tax group. Current taxes are settled in current account with the parent company.

2.22.2. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A deferred tax asset is recognized for tax loss carry forwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax assets and liabilities are reviewed at each reporting period and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. The carrying amount is not discounted and reflects the expectations of Aegon Nederland concerning the manner of recovery or settlement.

Deferred tax assets and liabilities are recognized in relation to the underlying transaction either in the income statement, other comprehensive income or directly in equity.

2.22.3. Deferred tax assets and liabilities relating to investments in subsidiaries

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are not recognized if Aegon Nederland is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not be reversed in the foreseeable future.

2.23. Other liabilities and accruals

Other liabilities and accruals are initially recognized at fair value plus transaction costs. They are then recognized at amortized cost using the effective interest rate method. A liability is derecognized when the financial obligation is discharged or cancelled. Unless stated otherwise, deferred interest and other accruals are recognized at (amortized) cost.

2.24. Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

2.25. Premium income

Gross premiums from life and non-life insurance are recognized as revenue when they become receivable. For products where deposit accounting is required, the deposits are not reflected as premium income, but are recognized as part of the financial liability.

Premium loadings for instalment payments and additional payments by the policyholders towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium, others are recognized as an expense. Profit sharing amounts that are used to increase the insured benefits are recognized as gross premiums. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid. Reinsurance premiums are accounted for in the same way as the original contracts for which the reinsurance was concluded.

Unearned premiums are the portion of premiums written in a financial year that relate to risk periods after the reporting date. Unearned premiums are calculated pro rata. The proportion attributable to subsequent reporting periods is recognized in the reserve for unearned premiums.

2.26. Investment income

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognized as an adjustment to the effective interest rate of the instrument. Investment income includes the interest income and dividend income on financial assets carried at fair value through profit or loss. Investment income also includes dividends accrued and rental income due, as well as fees received for securities lending.

2.27. Fee and commission income

Fees and commissions from investment management services and mutual funds, services where Aegon Nederland acts as service provider (including mortgage loan fee business) and from sales activities are recognized as revenue over the period in which the services are performed or for sales activities where services have been rendered.

2.28. Policyholders claims and benefits

Policyholders claims and benefits consists of claims and benefits paid to policyholders, including benefits in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

2.29. Results from financial transactions

Results from financial transactions include:

- Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.
- Gains and losses on financial investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss.
- Gains and losses on real estate (both realized and unrealized) relate to the changes in fair value of the investments in real estate.
- All changes in fair value of derivatives are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.
- Net fair value change on financial assets at fair value through profit or loss for account of policyholder includes the fair value movements of investments held for account of policyholders. The net fair value change does not include interest or dividend income.
- Net foreign currency result comprises net foreign currency gains and losses.

2.30. Commissions and expenses

Commissions, staff and administration expenses incurred are allocated to the period to which they relate. Acquisition expenses are deferred to the extent that they are recoverable and subsequently amortized.

2.31. Interest charges and related fees

Interest charges and related fees include interest expense on loans and other borrowings. Interest expense on loans and other borrowings carried at amortized cost is recognized in the income statement using the effective interest method. Fees and commissions that form an integral part of the effective return on financial liabilities are recognized as an adjustment to the effective interest rate of the instrument.

2.32. Corporate income tax

Corporate income tax is calculated at the current rate on the pre-tax profits over the financial year, taking into account any temporary and permanent differences between the profit determination in the financial statements and the profit calculation for tax purposes. Taxes comprise deferred and current taxes on profit. Taxes on net income are recognized in the income statement, unless the taxes relate to items that are recognized directly in other comprehensive income. In the latter case, the taxes are also recognized in other comprehensive income.

2.33. Leases

Aegon Nederland has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. For further information on the revises Leases standard refer to note 2.1.1. ‘Adoption of new IFRS-EU accounting standards and amendments effective in 2019’.

Policy applicable from 1 January 2019

<u>As a lessee</u>
Aegon Nederland recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of real estate and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses (using the same rate to measure the lease liability), if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Aegon Nederland’s incremental borrowing rate. Generally, Aegon Nederland uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Aegon Nederland's estimate of the amount expected to be payable under a residual value guarantee, or if Aegon Nederland changes its assessment of whether it will exercise a purchase, extension or termination option. Aegon Nederland presents right-of-use assets that do not meet the definition of investment property in 'Other assets and receivables' and lease liabilities in 'Other liabilities and accruals' in the statement of financial position.

Short-term leases and leases of low-value assets
Aegon Nederland has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including small office equipment. Aegon Nederland recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

<u>As a lessor</u>
Where Aegon Nederland is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the statement of financial position according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Policy applicable before January 1, 2019
Arrangements that do not take the form of a lease but convey a right to use an asset in return for a payment are assessed at inception to determine whether they are, or contain, a lease. This involves an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and whether the purchaser (lessee) has the right to control the use of the underlying asset.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Group is the lessee, are charged to the income statement on a straight line basis over the period of the lease.

Where the Group is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the statement of financial position according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2.34. Events after the reporting period

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

3. Critical accounting estimates and judgment in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events.

Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, goodwill (refer to paragraph 2.12), insurance contracts and guarantees (refer to paragraph 2.15), pension plans (refer to paragraph 2.21), corporate income taxes (refer to paragraph 2.22 & 2.32) and the potential effects of resolving litigation matters (refer to paragraph 2.24).

Accounting policies that are critical to the financial statements presentation and that require complex estimates or significant judgment are described in this chapter.

3.1. Changes in estimates

For Aegon Nederland's pension and life business the population mortality assumptions have been updated due to the relatively high mortality observed in both Europe and the Netherlands driven by a severe flu season observed in Europe in 2017 and 2018. The population mortality updates also has an effect on the marriage and partner frequencies through the joint survivor probability of main and spouse from the age of retirement. The data and assumption updates has lead to a decrease of the technical provision by EUR 57 million and a decrease in the Liability Adequacy Test (LAT) margin of EUR 109 million, which resulted in an increase of EUR 166 million in income before tax.

For the Pension business model refinements are made regarding data sources from external administrations. Due increased insight in the scaling of external administrations and more precise modelling the LAT provision increases with EUR 120 million, which results in a decrease of EUR 120 million in income before tax.

As part of the annual assumption update process 2019 the best estimate cost parameters of Aegon Nederland are updated. This assumption update is in respect of the Aegon Nederland Maintenance costs (ABC costs) using e.g. the most recent budgets / in force policies / claim experience / external claim handling costs / recent earned premiums / recent insights in outsourcing. Due to more refined assumptions the LAT provision increases with EUR 95 million, which results in a decrease of EUR 95 million in income before tax.

Model refinements regarding pension guarantee products of Aegon Nederland are implemented which provide better insight in the volatility of the guarantee provisions. Consequently the guarantee provision decreases with EUR 43 million, which results in an increase of EUR 43 million in income before tax.

Parameter updates regarding interest profits for expected guarantee premiums products of Aegon Nederland provide a better estimation of the relevant guarantee provisions. Parameters are updated as more relevant experience data is available. Consequently the guarantee provision increases with EUR 37 million, which results in a decrease of EUR 37 million in income before tax.

The WIA model used by Aegon Nederland is based on the model developed by the Dutch Association of Insurance companies. During 2019 the Verbond van Verzekeraars made a model change ('WIA Kansenstelsel 2019') and performed an update with respect to the assumptions used for the best estimate calculations. The impact of the model change is negligible, because Aegon Nederland had already expanded their own model with the same changes, therefore there was no model change needed. The technical provision for the WIA income protection products decreased with EUR 35 million, which results in an increase of EUR 35 million in income before tax. Further, a change in estimates regarding the utilization of the residual earning capacity ('benutting restverdiencapaciteit') resulted in an increase of EUR 24 million in the WIA provision.

Due to model and assumptions updates with respect to AOV, Aegon Nederland is able to estimate better disability rates. This results in a higher technical provision for AOV (Arbeidsongeschiktheidsverzekering) of EUR 20 million.

A methodology change for setting the General Account investment cost assumption resulted in an increase of the LAT provision with EUR 26 million, which results in a decrease of EUR 26 million in income before tax accordingly. The updated methodology prescribes the application of a company-specific cost parameter which is higher than the previous cost parameter based on a market consistent approach.

Several model and assumption updates have been made with respect to mortgages. As Aegon Nederland announced in December 2018, Loan-to-Value migration is applied automatically and clients received discount from June 1, 2019 onwards on their mortgage rates. In addition, there were two model changes: the change in methodology applied to retail rates (decrease in market value of EUR 118 million) and the spread curve used for discounting (decrease in market value of EUR 30 million). As the mortgage loans of Aegon Nederland are valued at amortized cost, this only impacts the fair value disclosed. There is no impact on reported equity or earnings.
The availability of new data on prepayments resulted in an increase of the LAT provision with EUR 26 million due to assumption updates which is partially offset by an decrease of the LAT provision of EUR 18 million due to the applied model changes regarding savings mortgages.

3.2. Valuation of assets and liabilities arising from life insurance contracts

The liability for life insurance contracts with guaranteed or fixed account terms is generally based on current assumptions or on the assumptions established at the inception of the contract. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows, including investment returns. To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized through other comprehensive income in the related revaluation reserve in equity.

For the liability adequacy test Aegon Nederland uses mortality tables that take into account expected future changes in life expectancy (the Aegon prospective mortality table).

The liability adequacy test uses a discount rate which converges linearly in 10 years to an Ultimate Forward Rate of 3.65% (2018: 3.65%) from the last liquid point. The uniform last liquid point is set at 30 years.

The discount rate includes a liquidity spread. The rates used to discount the insurance liabilities on Aegon Nederland's statement of financial position are determined using discount rates as contractually agreed. Insurance liabilities for risk of policyholders are generally shown at the balance sheet value of the related investments.

The assumptions in the liability adequacy test contain a margin for risk which represents the cost of capital held for unhedgeable financial and underwriting risks.

Some insurance contracts without a guaranteed or fixed contractual term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability in accordance with Dutch accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

Actuarial and economic assumptions

The main assumptions used in measuring the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment returns, expenses and lapses. Actuarial assumptions are reviewed annually, in the fourth quarter of the calendar year, based on historical observable market data, including market transactions such as acquisitions and reinsurance transactions, anticipated trends and legislative changes. Similarly, the models and systems used for determining our liabilities are reviewed periodically and, if deemed necessary, updated based on emerging best practices and available technology.

Mortality tables are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate.

For contracts insuring survivorship, allowance is made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

Investment assumptions are prescribed by the regulator, market observable or based on management's future expectations. In the latter case, the anticipated future investment returns are set by management, considering available market information and economic indicators.

Starting point for the future operational costs is the current level of expenses. For the projection of the operational costs a split is made between fixed and variable expenses. Further it is assumed that a part of the portfolio will be outsourced as soon as outsourcing is more attractive.

Surrender rates depend on product features (e.g. policy duration, fund value and premium) and characteristics of the policy holder (e.g. age). Reliable own experience, as well as available industry wide data, are used in establishing assumptions relating to lapses.

3.3. Valuation of liabilities arising from non-life insurance contracts

The main assumptions used in measuring liabilities for accident and health non-life insurance contracts relate to morbidity (sick leave insurance and recoveries), mortality, expenses and lapses. The main assumptions used for the other non-life branches relate to claims statistics (including incurred but not reported (IBN(E)R)), investment return and future expenses. IBN(E)R claims relate to claims that have occurred but that have not yet been reported to Aegon Nederland as well as claims where the incurred amount is expected not to be enough.

Assumptions on morbidity are based on Aegon Nederland's claims history, augmented where necessary with industry information or data from the Dutch Association of Insurers or the Employee Insurances Implementing Agency (UWV). Assumptions on claims statistics are based on Aegon Nederland's claims history, adjusted where necessary for expected benefits inflation.

Starting point for the future operational costs is the current level of expenses. For the projection of the operational costs a split is made between fixed and variable expenses. Further it is assumed that a part of the portfolio will be outsourced as soon as outsourcing is more attractive.

Lapse rates depend on product features, policy duration and external factors such as foreseeable competitor and policyholder behavior. Company experience and data published by the industry are used in establishing the assumptions.

3.4. Determination of fair value and fair value hierarchy

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between knowledgeable and willing market participants that are independent of each other and able to enter into the transaction at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) in the principal market for the asset or liability; or
(b) in the absence of a principal market, in the most advantageous market for the asset or liability.

Aegon Nederland uses the following hierarchy for measuring and disclosing the fair value of assets and liabilities:

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that Aegon Nederland can access at the measurement date;
- Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used.

The degree of judgment used in measuring the fair value of assets and liabilities generally inversely correlates with the level of observable valuation inputs. Aegon Nederland maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. Financial instruments, for example, with quoted prices in active markets generally have more pricing observability and therefore less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

The assets and liabilities categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

The judgment as to whether a market is active may include, although not necessarily determinative, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance is obtained that the transaction price provides evidence of fair value or determined that the adjustments to transaction prices are necessary to measure the fair value of the instrument.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities; the derivation of fair value is more judgmental. An instrument is classified in its entirety as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs. "Unobservable" in this context means that there is little or no current market data available from which to determine the price at which an at arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. The use of different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

To operationalize the fair value hierarchy of Aegon Nederland, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modelled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment. In note 37 'Fair value of assets and liabilities' more information, both quantitive and qualitative is given.

3.5. Goodwill

Goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The recoverable amount is the higher of the value in use and fair value less costs to sell for a cash-generating unit. Impairment testing requires the determination of the value in use or fair value less costs for each of the identified cash generating units of Aegon Nederland. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates.

3.6. Valuation of defined benefit plans

The liabilities or assets recognized in the statement of financial position in respect of defined benefit plans is the difference between the present value of the projected defined benefit obligation at the balance sheet date and the fair value of plan assets. Assets held by Aegon Nederland backing the retirement benefits do not meet the definition of plan assets and as such were not deducted from the defined benefit obligation. Instead, these assets are recognized as general account assets.

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, estimated future wage inflation and estimated future pension increases. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

3.7. Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forward of unused tax losses and carry forwards of unused tax credits when in the judgment of management it is more likely than not that Aegon Nederland will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews the deferred tax positions of Aegon Nederland periodically to determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

The measurement of corporate income tax receivable/payable depends among other things on the application of the tax rules. It can be unclear how a specific tax law provision applies to a certain transaction or event.

3.8. Recognition of provisions

Provisions are established for contingent liabilities when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

3.9. Control assesment

In making the assessment whether Aegon Nederland has control over an entity, Aegon Nederland analyses whether it has power over the entity. The outcome of this analysis depends on the purpose and design of the entity, what are the relevant activities (that drive the entity’s returns) and how decisions about them are taken and whether rights of the entity give current ability to direct the relevant activities. In performing this assessment, Aegon Nederland has defined the most relevant activity as the ability to determine the strategic policies of an entity. The outcome of the analysis also depends on whether Aegon Nederland is exposed to or has rights to variable returns from its involvement with the entity and whether Aegon Nederland has the ability to use its powers over the entity to affect the amount of its returns. Different assumptions may result in a different outcome of the control assessment.

4. Risk management

4.1. Enterprise Risk Management

4.1.1. Introduction

This chapter provides an executive summary of Aegon Nederland's Enterprise Risk Management (ERM) framework. ERM supports Aegon Nederland's corporate strategy by enabling management to effectively deal with uncertainty and the associated risk return trade-offs, by ensuring a common system for measuring value and risk. ERM is a process which is designed and implemented to identify and to manage potential risk events that may affect Aegon Nederland. The aim is to manage risk aligned with Aegon Nederland's risk appetite and within risk tolerances and limits in order to provide reasonable assurance regarding the achievement of Aegon Nederland's objectives.

4.1.2. Risk Management structure and governance

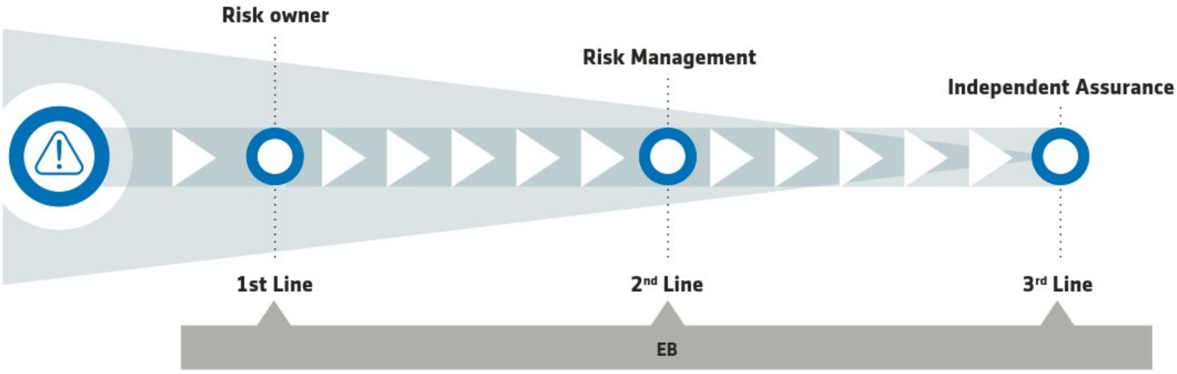
Risk committees

Aegon Nederland's risk governance framework is represented across all levels of the organization. This ensures a coherent and integrated approach to risk management throughout the company. Aegon Nederland's risk committee structure is characterized by a hierarchy based on four basic layers:

Supervisory Board	**Management Board (MT NL)**
The Supervisory Board is responsible for overseeing Aegon Nederland's ERM framework, including risk governance and measures taken to ensure risk management is integrated properly into Aegon Nederland's broader strategy. The Supervisory Board oversees Aegon Nederland's risk exposure as it relates to capital, earnings and market consistent value at risk and compliance with Aegon Nederland's risk policies.	Aegon Nederland's Management Board has an overall responsibility for risk management. The Management Board adopts the risk strategy, risk governance, risk tolerance and material changes in risk methodology and risk policies.
Risk and Audit Committee (RAC)	**Risk and Capital Committee (RCC)**
The Risk and Audit Committee (RAC) monitors, discusses, supports progress and decides on risks and issues, which are relevant for the proper management of strategic, operational and compliance risks. The focus of the RAC is primarily to those risks and issues that are outside the target zone of the predefined risk appetite in terms of financial losses, financial reporting misstatements, customer and reputation damage.	The purpose of the Risk and Capital Committee (RCC) is to manage financial risks, capital and the associated expected returns in order to maintain a strong capital position for Aegon Nederland.

Three lines of defense model

In order to ensure conscious risk-return decisions and limit the magnitude of potential losses within defined levels of certainty, Aegon's risk management structure has been established based on the principles of the "Three lines of defense" model.



Aegon Nederland's first line of defense, including the business and support functions, has direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerances and risk policies. The second line of defense – including the risk management function, compliance function and actuarial function – facilitates and oversees the effectiveness and integrity of ERM across Aegon. The third line of defense – the audit function – provides independent assurance opinion on the effectiveness of the internal control, risk management and governance systems.

Key function holders

Aegon Nederland has appointed a Compliance Function Holder (CFH), an Actuarial Function Holder (AFH), a Risk Management Function Holder (RFH) and an Internal Audit Function Holder in line with Solvency II regulation and additional guidance related to system of governance.

Compliance Function Holder (CFH)	Actuarial Function Holder (AFH)
The CFH is part of the Aegon Nederland's second line of defense. The CFH is required to ensure that Aegon Nederland complies with the applicable legal requirements, internal policies and procedures to accomplish Aegon Nederland's mission. This primarily concerns laws and regulations which arise from having a controlled and sound conduct of its business as laid down in WFT and Solvency II.	The AFH is part of the Aegon Nederland's second line of defense. It is the mission of the AFH to ensure proper and efficient pricing and valuation of policyholder liabilities and to embed actuarial considerations in key management decisions in order to ensure continuity of Aegon Nederland and to support the creation of sustainable value for all our stakeholders.
Risk Management Function Holder (RFH)	**Internal Audit Function Holder**
The RFH is part of the Aegon Nederland's second line of defense. The RFH is assisted by the departments Financial Risk Management (FRM), Operational Risk Management (ORM), Model Validation (MV) and Underwriting Risk Management (URM). FRM supports the RFH for Investment & Counterparty Risk and Mismatch Risk (asset liability management), including the use of risk mitigating techniques (hedging with derivatives). ORM supports the RFH on operational Risk (where the Compliance risks are in scope of the CFH). URM supports the RFH on activities related to the SCR related underwriting risk assessments. Model Validation supports the RFH with respect of assurance on the integrity of model in scope of the RFH and contributes to the transparency of model risks.	The Internal Audit Function Holder assists the Statutory directors of Aegon Nederland, the Risk and Audit Committee of the Supervisory Board and senior management in protecting Aegon Nederland's assets, reputation and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes. Additionally, Internal Audit Nederland provides consulting services related to the evaluation and improvement of the management control environment of Aegon Nederland, including upon request by any relevant stakeholder, such as the Risk and Audit Committee or executive management. When providing assurance and consulting services, the Internal Audit Function Holder needs to maintain operational independence. The Internal Audit Function Holder is part of the third line of defense.

4.1.3. Enterprise risk management process

ERM building blocks

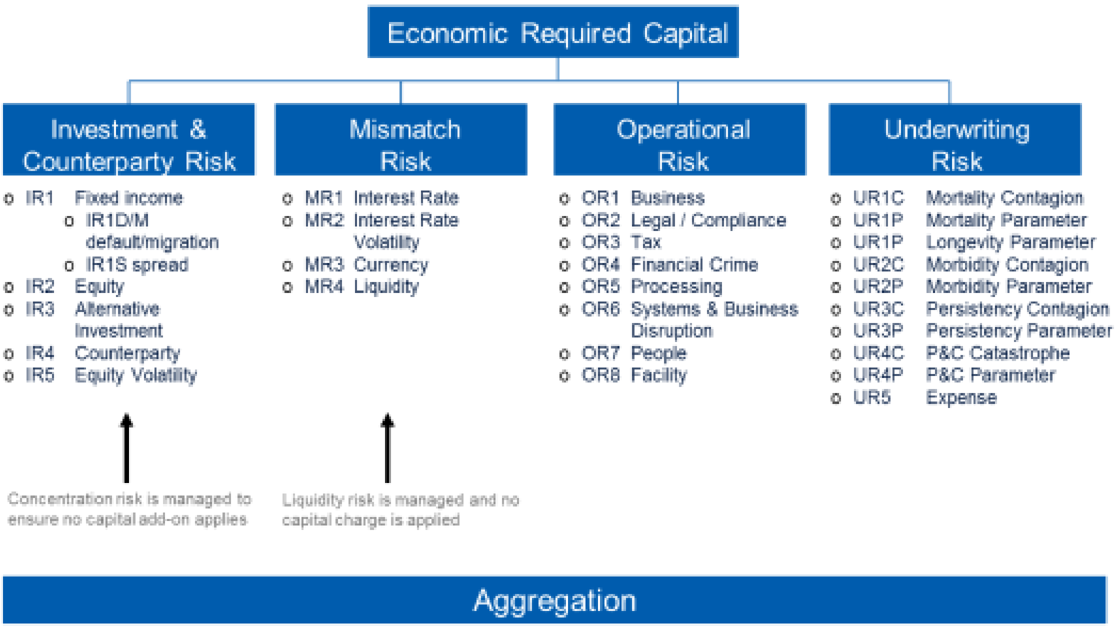
Aegon Nederland's enterprise risk management framework considers risk from various perspectives and can be decomposed into multiple components. However, enterprise risk management is not strictly a serial framework, where one component affects only the next. It is a multidirectional, iterative framework in which almost any component can and does influence another. The principles and requirements of ERM apply on all organizational levels and concern both financial and operational risks. Risks are managed from multiple perspectives, including culture, economic, regulatory and accounting. Relevant metrics in ERM include capital, earnings, liquidity and franchise value.

Risk Strategy	**Risk Tolerance**
The first building block in the enterprise risk management process is the formulation of an enterprise risk management strategy. The risk strategy forms the basis for the risk tolerance statements, which are specified in terms of financial strength, continuity, culture and risk balance and are translated into operating guidelines for the various risk types.	Risk Tolerance includes the risk appetite of Aegon Nederland including qualitative and quantitative risk tolerances that are the basis to support the business in making decisions about whether risks are within appetite, acceptable or need to be mitigated or avoided. Qualitative and quantitative tolerances are to be determined by management based on the values and principles of Aegon Nederland and should be in line with the company's purpose, values, objectives, Code of Conduct, and Market Conduct Principles.
Risk Identification	**Risk Assessment**
The risks that Aegon Nederland faces are identified and presented in the risk universe. An emerging risk process ensures that the risk universe will capture the full spectrum of risks. In order to assess the risks, Aegon Nederland has developed a methodology for measuring the risks as defined in the risk universe.	Aegon Nederland's approach to evaluating operational risks is based on the quantitative and qualitative rating of those risks with regard to their potential impact and likelihood after consideration of the effectiveness of controls. Risk impact is assessed along the following four impact dimensions: financial loss, customer, reputation and financial misstatement. The resulting ratings reflect the uncontrolled (residual) risk the business area is running.
Risk Response	**Risk Reporting (& Monitoring)**
Once the risks have been identified, evaluated and prioritized, an appropriate risk response needs to be defined. Action plans are developed and managed if Aegon Nederland's risk tolerances are violated.	Compliance with the risk tolerance statements and the risk policy requirements is monitored and reported on a periodic basis to operational management. Through a formal Risk and Audit Committee senior management is informed on their forward looking risk profile on a quarterly basis, together with details of action plans that address key risks. In the quarterly report the CRO's opinion on, among others, the effectiveness of those plans is formalized.

Aegon Nederland controls the risk it faces along various dimensions through its risk governance framework, risk monitoring, model validation, and embedding of risk management into functional areas, such as business planning, capital planning and management, remuneration, pricing and product development. The execution of these building blocks is a continuous and iterative undertaking, including periodic or ad hoc adjustment of the strategy and risk tolerance based on new risk information or changes in the business (environment). The full enterprise risk management methodology is formalized in the ERM Manual, ERM policy and underlying detailed policies and manuals.

Risk universe

Aegon Nederland's risk universe captures all material risks that the company is exposed to. The emerging risk process ensures that the risk universe will remain up to date. An overview of Aegon Nederland's risk universe is provided below:



A detailed description of the relevant risk categories is provided in note 4.2 'Risk Management Approach'.

4.2. Risk management approach

Category	Risk description	Measures taken
Operational risks	Aegon Nederland faces operational risks resulting from operational failures or external events, such as processing errors, acts from personnel, and natural or man-made disasters. The risks in internal processes include the risk of fraud and reporting incidents.	Aegon Nederland analyzes operational risks on a continuous basis and regularly develops contingency plans to deal with them. Through Risk and Control Self Assessments, all processes are analyzed periodically and recalibrated in order to bring risks within the thresholds of our risk appetite. In case of risk events, a Root Cause Analysis is performed in order to investigate whether a control was missing or if a particular control failed. Action plans are put in place to improve organizational control and these are continuously monitored by the Operational Risk Management department.
Strategic risks	Strategic risks for Aegon Nederland include longevity, default, financial crime, liquidity, compliance, processing, reporting, modelling, outsourcing and information security risks.	Aegon Nederland's strategic risks are identified in strong collaboration between the Management Team of Aegon Nederland and the Risk Management & Compliance department. All of these risks are monitored periodically. The underlying action plans are challenged on their rigor and depth in order to address the risks at hand and reduce the residual risks to an acceptable level. Aegon Nederland increasingly makes use of new technologies that create new opportunities in the way products and services are provided to the customers. At the same time, Aegon Nederland is improving its administration services by outsourcing part of her administration to more specialized parties.

Category	Risk description	Measures taken
Regulatory and compliance risks	Aegon Nederland aims to embed compliance with laws, regulations, business principles, rules of conduct, customer agreements and established good business practices in every aspect of the organization. Among the regulatory risks Aegon Nederland considers are also the risk related to the litigation portfolio and product-related issues. Changes in current legislation and regulation of insurance and banking products may affect Aegon Nederland's products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Nederland's ability to sell new products or its claims' exposure on existing ones. Additionally, new or amended legislation or regulations may be more restrictive or result in higher costs than lead to higher costs than is currently the case.	Aegon Nederland promotes integrity by establishing and maintaining effective compliance risk management and control systems. Aegon Nederland has a process in place to ensure that it flags and defines the impact of new laws and regulations and implements them in a timely manner. To best safeguard customers' interests, Aegon Nederland does not simply put any proposition on the market. Every new and updated proposition follows a proposition-approval process. In this process, the risks are carefully balanced and tested against the duty of care towards the customer, financial sustainability and suitability with Aegon Nederland's vision, strategy and objective. In addition to the proposition approval process, Aegon Nederland uses a propositions review process for existing propositions. Existing propositions, selected through the use of pre-defined risk indicators, also go through this process to best safeguard customers' interests.
Reporting risk	Aegon N.V. is subjected to Sarbanes Oxley (SOx) law and Solvency II regulation, and as a significant entity also Aegon Nederland is compelled to comply with specific stringent regulation.	Aegon Nederland tests the design, existence and performance of key controls on an annual basis to ensure that material misstatements in the financial figures can be prevented or detected in a timely manner. Procedures ensure that operational risk management is able to independently conclude and provide reasonable assurance of the internal controls over financial reporting.
Modelling risk	Modelling risk includes flawed and/or insufficiently documented methods used in model design, or incorrect model coding or calculations caused by change management failure, flawed or insufficient model development and testing procedures.	An Aegon Nederland model validation framework is operated to ensure that the models remain appropriate to measure risk exposure and hence risk capital in the business. Risk measurement calibration is derived by the model owners and model owner testing. Model validation involves the assessment of each model across a range of validation tests and standards as set out in the framework. The large majority of all existing high risk models has been independently validated by the Model Validation team. In accordance with regular governance, findings from Model Validation are addressed by the model owners within agreed upon timelines. This is monitored by relevant Risk and Audit Committees. Model owners are performing a.o. review procedures on new models and the model inventory is periodically updated and independently reviewed by Model Validation. Furthermore, model risk management policy is followed. Underwriting Risk Management and Financial Risk Management review new and material models and assessing model changes in a risk based manner. Finally, regular governance (Assumptions & Methodology Committee, Risk & Capital Committee and Model Change Board) is followed for approval of new models.

Category	Risk description	Measures taken
Outsourcing risk	Outsourcing risk includes discontinuity of outsourced services e.g. bankruptcy, disruption of services, or standards of service level agreements not being met.	Aegon Nederland manages outsourcing risks via dedicated service level managers, contract management, service level reports, site visits, assurance report reviews and periodic meetings.
Information security risk	Information security risk relates to confidentiality, integrity and availability of information. Access to data by unauthorized parties could lead to loss of competitive advantages or could lead to privacy related risks. Information risk includes unauthorized or erroneous changes to business data or applications (business process controls) leading to fraud, error or failing internal controls. It also includes the loss of data and systems, or unavailability, causing inability to meet business process needs.	Aegon Nederland protects and continually strengthens its existing security control environment and use preventive tooling to minimize impact and exposure to new and existing threats. Evaluations of security controls – including detection and response capabilities are frequently performed by both internal and external experts. Identified vulnerabilities are followed-up by risk based actions plans, which are reported, tracked and monitored by management. Aegon Nederland performed a security capability assessment to determine the maturity of current capabilities and desired future maturity of these capabilities to be able to manage current and future information security/cyber risks. The prioritized risks – based on maturity current capability and target maturity for the capability- provide the input for the 2019/2020 security roadmap. Focus will be on: ▪ Third Party Risk Management (Governance Domain) ▪ Metrics and Reporting (Governance Domain) ▪ Privileged Access Management (Identity Domain) ▪ Data Classification & Lifecycle Management (Data Protection)
Credit risk	Credit Risk is a combination of Fixed Income Risk and Counterparty Risk. Fixed Income Risk is the risk that the market value of fixed income investments will fluctuate because of changes in the financial condition of the obligor. This risk can result from changes in the rating category of the obligor, regular fluctuation of spreads associated with each credit rating over time, and potentially default. Counterparty Risk is the risk that the value of positions taken by Aegon Nederland to change its risk-return profile (e.g., derivatives or reinsurance) will fluctuate because of a deteriorating financial condition of those counterparties.	Having a well-diversified investment portfolio means that Aegon Nederland can accept credit spread risk to earn a liquidity premium on assets that match liabilities.
Equity market risk and other investment risks	Aegon Nederland runs the risk that the market value of its investments changes. Investment risk affects Aegon Nederland direct investments in the general account, indirect investments on the account of clients and agreements where Aegon Nederland relies on counterparties, such as reinsurance and derivative counterparties.	Aegon Nederland has a low preference for investments in equity securities via the general account. Equity investments generate an equity risk premium over the long run, but in combination with a high capital charge result in a relatively low return on capital. Aegon Nederland has experience and expertise in managing complex investment guarantees and leverages this capability by providing customers access to a range of investment strategies and guaranteed benefits.

Category	Risk description	Measures taken
Interest rate risk	Aegon Nederland is exposed to interest rates as both its assets are liabilities are sensitive to movements in the long and short term interest rates as well as to changes in the volatility of interest rates.	Aegon Nederland accepts interest rate risk in order to meet customer needs. However, as no spread is earned on this interest rate risk, Aegon Nederland prefers to hedge the risk to the extent possible.
Liquidity risk	Aegon Nederland needs to maintain sufficient liquidity to meet short term cash demands under normal conditions, but also in crisis situations.	Aegon Nederland has put a strong liquidity management strategy in place. Aegon Nederland considers extreme liquidity stress scenarios, including the possibility of prolonged 'frozen' capital markets, an immediate and permanent rise in interest rates, and policyholders withdrawing liabilities at the earliest conceivable date. In addition, Aegon Nederland has liquidity stress planning in place.
Underwriting risk	Underwriting risk relates to the products sold by Aegon Nederland's insurance entities. It is the risk of incurring losses when actual experience deviates from Aegon Nederland's best estimate assumptions on mortality, morbidity, policyholder behavior, claims and expenses.	Aegon Nederland has a preference to selectively grow underwriting risk, but this needs to go hand-in-hand with a strong underwriting process. Aegon Nederland's earnings depend, to a significant degree, on the extent to which claims experience is consistent with assumptions used to price products and establish insurance liabilities. Changes in, among other things, morbidity, mortality, longevity trends and policyholder behavior may have a considerable impact on Aegon Nederland's income. Assumptions used to price products and establish insurance liabilities are reviewed on a regular basis.
Currency exchange rate risk	Aegon Nederland faces limited currency exchange risk on policies denominated in a currency other than the euro.	Currency risk in the investment portfolios is managed using asset liability matching principles and hedged as far as possible.
Inflation risk	Aegon Nederland offers products that cover inflation risk for policyholders.	To hedge the inflation risk, Aegon Nederland invests in financial instruments of which the value depends on the rate of inflation. This significantly reduces Aegon Nederland's net exposure to inflation risk.

Category	Risk description	Measures taken
Derivatives risk	Aegon Nederland uses financial derivatives to hedge risks relating to investments for general account, loans, certain liabilities and part of its solvency capital and asset liability management strategy. Not all risks to which Aegon Nederland is exposed can be adequately managed using derivatives. In addition, a counterparty in a derivative contract may fail to meet its obligations towards Aegon Nederland. Either situation can have significant adverse consequences for Aegon Nederland's operations, operating results and financial position.	Interest rate derivatives are used to manage interest risk positions. These contracts are designated as economic hedges with respect to these risks. The main types of derivatives used are interest rate swaps, swaptions, caps/floors and forward rate agreements/futures. Other derivatives are used to manage risks relating to equities and credit. The main types of derivatives used for this are equity swaps, options, futures and credit derivatives. In order to mitigate certain investment risks for investments for account of policyholders with a guaranteed return, Aegon Nederland invests in total return swaps (TRS). These TRSs hedge the movements in the guarantee provision. Under the TRSs, the returns for the account of policyholders on a specified nominal amount are paid out, while the treasury yield on this nominal amount is received. Aegon Nederland operates a policy to monitor the use of derivatives. This policy sets out the control, authorization, implementation and monitoring requirements for using these instruments and also stipulates the necessary credit risk limiting actions using derivatives. In general, credit risk related to bilateral derivatives contracts is reduced by collateral requirements in the contract. Interest rate swaps are centrally cleared to minimize credit risk.
Catastrophes	The operating results and financial position can be adversely affected by natural and man-made disasters such as hurricanes, riots, fires,explosions and the risk of a pandemic (such as COVID-19). Furthermore, natural disasters, terrorism and fires could disrupt Aegon Nederland's operations and could result in significant loss of property, substantial personnel losses and the destruction of company and customer information.	Aegon Nederland seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, even with reinsurance, such events could lead to considerable financial loss.
Legal proceedings	Aegon Nederland is involved in litigation as part of the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are being sought. Current and former customers, both institutional as well as individual, and groups representing customers, initiate litigation. Moreover, certain groups encourage others to bring lawsuits in respect of certain products.	Aegon Nederland has established litigation policies to deal with claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Nederland will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

4.2.1. IFRS Sensitivities

Results of Aegon Nederland's sensitivity analysis are presented in the following paragraphs to show the estimated sensitivity of net income and equity to various scenarios. For each significant market risk, the analysis shows how net income and equity would be affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon

Nederland's regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon Nederland's accounting policies[2]. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. Although management's short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analysis provided below.

The accounting mismatch inherent in IFRS is also apparent in the reported sensitivities. A change in interest rates has an immediate impact on the carrying amount of assets measured at fair value. However, the shock will not have a similar effect on the carrying amount of the related insurance liabilities that are measured based on prudent assumptions. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and equity. Aegon Nederland has classified a significant part of its investment portfolio as 'available-for-sale', which is one of the main reasons why the economic shocks tested have a different impact on net income than on equity. Unrealized gains and losses on these assets are not recognized in the income statement but are booked through other comprehensive income to the revaluation reserves in equity, unless impaired.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of Aegon Nederland's future equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of Aegon Nederland's future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analysis cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

The sensitivity analysis below solely contains investments for general account and guarantees issued by Aegon Nederland. Investments for risk of policyholders are for the account and risk of third parties and do not lead to an increase in Aegon Nederland's exposures, other than in the form of possible guarantees.

4.2.2. Interest rate risk

Aegon Nederland bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the cash flow profile of the liabilities can offset this risk. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

In periods of rapidly increasing interest rates, surrenders and withdrawals may increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher expected returns. This activity may result in cash payments by Aegon Nederland requiring the sale of invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates; this may result in realizing investment losses. These cash payments to policyholders result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also require accelerated amortization of DPAC, which in turn reduces net income.

During periods of sustained low interest rates, Aegon Nederland may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided on policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. Mortgages and redeemable bonds in the investment portfolio are more likely to be repaid as borrowers seek to borrow at lower interest rates and Aegon Nederland may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, net income declines as a result of a decrease in the spread between returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

Aegon Nederland manages interest rate risk closely, taking into account all of the complexity regarding policyholder behavior and management action. Aegon Nederland employs sophisticated interest rate measurement techniques and actively uses derivatives and other risk mitigation tools to closely manage its

[2]Please refer to note 3 for a description of the critical accounting estimates and judgments.

interest rate risk exposure. Aegon Nederland operates an Interest Rate Risk policy that limits the amount of interest rate risk to which Aegon Nederland is exposed. All derivative use is governed by Aegon Nederland's Derivative Use Policy.

Under IFRS, unrealized gains in the value of the insurance liabilities as a consequence of a rise in interest rates are not reflected in net income and equity, except when the liability adequacy test shows a deficit. If interest rates fall, the unrealized gains on certain investments will positively affect the net income and equity. If the liability adequacy test shows that the insurance liability in the statement of financial position is in a deficit position, this has to be supplemented through the revaluation reserves (shadow accounting) or through the income statement.

The following table shows interest rates at the end of each of the last five years.

	2019	2018	2017	2016	2015
3-month US Libor	1,91%	2,81%	1,69%	1,00%	0,61%
3-month Euribor	-0,38%	-0,31%	-0,33%	-0,32%	-0,13%
10-year US Treasury	1,91%	2,68%	2,41%	2,44%	2,27%
10-year Dutch government	-0,06%	0,38%	0,52%	0,35%	0,79%

Sensitivity of interest rates
The sensitivity analysis shows an estimate of the effect of a parallel shift in the yield curves on net income and equity arising from the impact on general account investments and offset due to liabilities from insurance contracts. In general, increases in interest rates are beneficial to Aegon Nederland and are therefore not considered a long-term risk. However, timing and valuation differences between assets and liabilities may cause short-term reductions in net income or solvency ratios as rates rise. Rising interest rates would also cause the fair value of the available-for-sale bond portfolio to decline and the level of unrealized gains could become too low to support recoverability of the full deferred tax asset triggering an allowance charge to income. The offsetting economic gain on the insurance contracts is however not fully reflected in the sensitivities because many of these liabilities are not measured at fair value. Over time, the medium-term reduction in net income due to rising interest rates would be offset by higher net income in later years, everything else remaining equal. However, a long sustained period of low interest rates will erode net income due to lower returns earned on reinvestments.

	2019		2018	
Parallel movement of yield curve	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	315	568	-504	-407
Shift down 100 basis points	-554	-943	786	-407

The interest sensitivities before taken into account the impact of the liability adequacy test (LAT) are moving in the same direction as in 2018. Aegon Nederland is exposed to a decrease in interest rates, resulting in impacts of sensitivities per balance sheet account have increased compared to 2018.

Due to the positive LAT headroom of Aegon Nederland at the end of 2018, changes in the LAT margin triggered by up or down interest shocks could be absorbed by the revaluation reserves on available for sale assets (shadow accounting). However, due to the current negative headroom position, changes in the LAT margin of Aegon Nederland, triggered by up or down interest shocks, will now be directly recognized in the income statement.

Also due to the low interest rates, the LAT deficit significantly increased compared to 2018. This also results in a opposite sign in impact on the LAT compared to 2018. Where in 2018 an upward shock would lead to a positive impact on the LAT totally compensating for the LAT deficit in the base scenario, the LAT deficit in 2019 can't be fully compensated by upward shock impacts, resulting in a negative impact on the LAT. This impact is partly compensated by a reduction of the market value of the fixed income portfolio. A downward shock would lead to a further increase of the deficit of the LAT, which outweighs the positive impact of the increasing market value of the fixed income portfolio. For the downward shock, the difference in impact is primarily due to the difference compared to 2018 that was available for absorption (through revaluation reserve as part of shadow accounting) in the downward scenario.

Impact of own credit spread on guarantees
The effect of the decrease in the own credit spread during 2019 (2018: increase) was a increase of the liability for guarantees by EUR 146 million (2018: decrease of EUR 97 million). Had the own credit spread been nil, the liability for guarantees would have been EUR 506 million higher (2018: EUR 529 million higher).

4.2.3. Credit risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, Aegon Nederland bears the risk for investment performance which is equal to the return of principal and interest. Aegon Nederland is exposed to credit risk on its general account fixed-income portfolio, over-the-counter derivatives and reinsurance contracts. During financial downturns, Aegon Nederland can incur defaults or other reductions in the value of its fixed income portfolio, which could have a material adverse effect on Aegon Nederland's business, results of operations and financial condition. Investments for account of policyholders are excluded as the policyholder bears the credit risk associated with the investments.

The table below shows Aegon Nederland's maximum exposure to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 39 'Transfers of financial assets' for further information on collateral given, which may expose Aegon Nederland to credit risk.

Explanatory notes to the table

Debt securities
Collateral for structured securities such as ABSs, RMBSs and CMBSs is not included in the table above. Whilst collateral for structured securities is present, the collateral is however related to the cash flows for paying the principal and interest on the securities and not to mitigate credit risk. The credit risk management relating to structured securities is disclosed in the note 4.2.5 'Credit risk concentration'.

Mortgage loans
The real estate collateral for mortgage loans comprises mainly of residential properties. The collateral received for residential mortgages is measured as the foreclosure value which is indexed periodically. Cash collateral for mortgage loans includes the savings that have been received to redeem the underlying mortgage loans at redemption date. These savings are part of the credit side of the statement of financial position, but reduce the credit risk for the mortgage loan as a whole.

A substantial part of Aegon Nederland's residential mortgage portfolio benefits from guarantees by a Dutch government-backed trust (Stichting Waarborgfonds Eigen Woning) through the Dutch Mortgage Guarantee program (NHG). These guarantees cover all principal losses, missed interest payments and foreclosure costs incurred upon termination and settlement of defaulted mortgage loans when lender-specific terms and conditions of the guarantee are met. When not fully met, the trust may pay claims in part or in full, depending on the severity of the breach of terms and conditions. For each specific loan, the guarantee amortizes in line with an equivalent annuity mortgage. When the remaining loan balance at default does not exceed the amortized guarantee, it covers the full loss under its terms and conditions. Any loan balance in excess of this decreasing guarantee profile serves as a first loss position for the lender. For NHG-backed mortgage loans originated after January 1, 2014, a 10% lender-incurred haircut applies on realized losses on each defaulted loan.

The 'surplus collateral' column represents the surplus value of individual mortgage loans (where the value of the real estate exceeds the value of the mortgage loan) as Aegon Nederland is not entitled to this part of the collateral.

Derivatives
The master netting agreements column in the table relates to derivative liability positions which are used in Aegon Nederland's credit risk management. The offset in the master netting agreements column includes balances where there is a legally enforceable right of offset, but no intention to settle these balances on a net basis under normal circumstances. As a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis, they do not qualify for net presentation for accounting purposes.

Collateral

Aegon Nederland has no assets received as non-cash collateral which can be sold or which themselves can serve as collateral without the owner of the assets being in default.

Aegon Nederland also receives cash collateral or other financial assets for financial assets that have been transferred to another party under reverse repurchase agreements and securities lending transactions. See note 39 ‘Transfers of financial assets’ for more information.

Positions for general account in the balance sheet

2019	Maximum exposure credit risk	Collateral received							Net exposure
Amounts in EUR million		Cash	Securities	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Shares	5.212	-	-	-	-	-	-	-	5.212
Debt securities	19.601	-	-	-	-	-	-	-	19.601
Mortgage loans *	28.799	2.627	-	41.635	43	-	-15.636	28.668	131
Private loans	4.440	-	-	-	-	-	-	-	4.440
Other loans	227	-	-	-	-	-	-	-	227
Other financial assets	85	-	-	-	-	-	-	-	85
Derivatives with pos. values	8.331	1.921	32	-	-	6.346	-	8.299	32
Loans and group loans	913	-	-	-	-	-	-	-	913
Reinsurance assets	29	-	-	-	-	-	-	-	29
At December 31	**67.638**	**4.548**	**32**	**41.635**	**43**	**6.346**	**-15.636**	**36.967**	**30.671**

*The base-adjustment of EUR 768 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
** Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

2018 Amounts in EUR million	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Shares	3.052	-	-	-	-	-	-	-	3.052
Debt securities	19.980	-	-	-	-	-	-	-	19.980
Mortgage loans *	28.243	2.520	-	39.577	124	-	-14.129	28.092	151
Private loans	4.068	-	-	-	-	-	-	-	4.068
Other loans	231	-	-	-	-	-	-	-	231
Other financial assets	55	-	-	-	-	-	-	-	55
Derivatives with pos. values	4.877	1.257	32	-	-	3.589	-	4.877	-
Loans and group loans	583	-	-	-	-	-	-	-	583
Reinsurance assets	23	-	-	-	-	-	-	-	23
At December 31	**61.111**	**3.777**	**32**	**39.577**	**124**	**3.589**	**-14.129**	**32.970**	**28.142**

*The base-adjustment of EUR 393 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
** Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

Credit risk management

Losses as a result of credit risk are a natural part of investing in fixed-income securities. The amount of and compensation for this risk are related. A significant management measure to avoid excessive credit risk is to diversify and limit exposure to individual issuers.

Aegon Nederland operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. These limits are set by Aegon N.V. and vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon Nederland's internal rating of the counterparty. When the exposure to a counterparty exceeds 75% it is considered to be at a warning level and the assets are monitored more closely. A warning and violation list is sent to portfolio managers on a weekly basis. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit set by Aegon N.V. and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon N.V. The policy is reviewed regularly. During 2019 there has been one breach regarding the CNLP, where for one counterparty the CNLP limit of EUR 135 million was exceeded by EUR 34 million. This breach was the result of maturing Credit Default Swap (CDS). This breach, which was corrected by closing a new CDS, was reported to the local Risk & Capital Committee (RCC) and did not require reporting to the Global RCC. During 2018 there were no breaches regarding the CNLP.

Aegon Nederland's level long-term counterparty exposure limits, are as follows:

	2019	2018
AAA	270	270
AA	270	270
A	200	200
BBB	135	135
BB	75	75
B	38	38
CCC or lower	15	15

These limits exclude sovereign exposures that are rated A or above. For these exposures Aegon N.V. has set limits which are only applicable and reported at a consolidated Aegon N.V. level[3]. Sovereign exposures (regardless of rating) that are issued by the government of the functional currency of Aegon Nederland's business and also owned in that currency and sovereign exposures that are rated AAA by all three major agencies (S&P, Fitch and Moody's) are exempt from the policy.

The ratings distribution of the general account investments is presented in note 4.2.4 'Credit rating'.

Aegon Nederland is exposed to non-government spreads narrowing, government spread widening and mortgage spreads widening. Exposure to government spread sensitivities is contributed by exposure to spreads widening due to the reduction in value of it's fixed income assets. Aegon Nederland is exposed to mortgage spreads widening, which has an adverse impact on the asset valuation.

Furthermore, as a result of the current negative LAT headroom position, future results will become more volatile due to changes in credit spreads as these are not hedged. Please find below the estimated sensitivities on shareholders' equity and on net income of Aegon Nederland for up and down shocks for credit spreads, mortgage spreads for the bond and mortgage portfolio and liquidity premium shocks for general account insurance liabilities:

Sensitivity analysis of net income and shareholders' equity **2019**	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Shift up 50 basis points - NL Bond credit spreads	-154	-831
Shift down 50 basis points - NL Bond credit spreads	148	895
Shift up 50 basis points - NL Mortgage spreads	-451	-451
Shift down 50 basis points - NL Mortgage spreads	479	479
Shift up 5 basis points - NL Liquidity premium	101	101
Shift down 5 basis points - NL Liquidity premium	-103	-103

[3] A-rated: EUR 675 million; AA-rated EUR 900 million; AAA-rated: EUR 900 million

Sensitivity analysis of net income and shareholders' equity **2018**	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Shift up 50 basis points - NL Bond credit spreads	-147	-748
Shift down 50 basis points - NL Bond credit spreads	140	802
Shift up 50 basis points - NL Mortgage spreads	-402	-402
Shift down 50 basis points - NL Mortgage spreads	425	425
Shift up 5 basis points - NL Liquidity premium	82	82
Shift down 5 basis points - NL Liquidity premium	-83	-83

4.2.4. Credit rating

The ratings distribution of general account portfolio of Aegon Nederland, including reinsurance assets, is presented in the next table.

2019	Amortized cost	Fair value	Reinsurance assets	Total 2019
AAA	1.799	13.328	-	15.126
AA	82	7.062	17	7.161
A	47	6.174	6	6.226
BBB	970	1.275	-	2.245
BB	49	36	-	84
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	31.289	5.355	6	36.650
Total on balance credit exposure at December 31	**34.235**	**33.229**	**29**	**67.493**
Of which past due and/or impaired assets	218	19	-	237

2018	Amortized cost	Fair value	Reinsurance assets	Total 2018
AAA	1.611	12.956	-	14.567
AA	83	6.278	13	6.374
A	55	1.785	4	1.843
BBB	924	844	-	1.769
BB	52	3	-	55
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	30.209	6.097	6	36.313
Total on balance credit exposure at December 31	**32.935**	**27.964**	**23**	**60.921**
Of which past due and/or impaired assets	277	25	-	302

'Assets not rated' relate to equities and derivatives (with positive value) at fair value and other financial assets at amortized cost (mainly mortgage loans).

4.2.5. Credit risk concentration

The tables below presents credit risk concentration information for general account financial assets.

Credit risk concentration - debt securities and money market investments	2019	2018
ABSs- Collateralized Debt Obligations (CDOs)	1.050	1.669
ABSs- Other	73	247
Residential mortgage backed securities (RMBSs)	311	395
Commercial mortgage backed securities (CMBSs)	13	35
Total investments in unconsolidated structured entities at December 31	**1.447**	**2.347**
Financial - Banking	277	226
Financial - Other	152	154
Industrial	1.609	1.284
Utility	109	94
Sovereign exposure	16.008	15.875
At December 31	**19.601**	**19.979**
Of which past due and/or impaired assets	-	-

Credit risk concentration - mortgage loans	2019	2018
Apartment	3.169	3.204
Retail	8	9
Other commercial	42	34
Residential	25.579	24.995
At December 31	**28.799**	**28.243**
Of which past due and/or impaired assets	169	229

Fair value of the mortgage loan portfolio:	2019	2018
Fair value mortgage loans	33.111	31.686
Loan to value (approximately)	67,2%	69,5%
Part of portfolio government guaranteed	49,0%	45,6%
Delinquencies in portfolio (defined as 60 days in arrears)	0,1%	0,2%
Impairments (reversals) during the year	-5	-

<u>Unconsolidated structured entities</u>

Aegon Nederland’s investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs are presented as part of the line item 'Investments' of the statement of financial position. Aegon Nederland’s interests in these unconsolidated structured entities can be characterized as basic interests, Aegon Nederland does not hold loans, derivatives or other interests related to these investments. The maximum exposure to losses from these investments is therefore equal to the carrying amount which is reflected in the credit risk concentration table regarding debt securities and money market investments. To manage credit risk Aegon Nederland invests primarily in senior notes. Additional information on credit ratings for Aegon Nederland’s investments in unconsolidated structured entities are disclosed in the sections that describe per category of debt securities the composition and impairment assessments (refer to note 4.2.4 ‘Credit rating’). The composition of the structured entities portfolios of Aegon Nederland are widely dispersed looking at the individual amount per entity, therefore Aegon Nederland only has non-controlling interests in unconsolidated structured entities.

Aegon Nederland did not provide financial or other support to unconsolidated structured entities. Nor does Aegon Nederland have intentions to provide financial or other support to unconsolidated structured entities in which Aegon Nederland has an interest or previously had an interest. Furthermore these structured entities are not originated by Aegon Nederland.

	2019		2018	
	Number of entities	Carrying amount	Number of entities	Carrying amount
EUR 0 < 10 million	38	151	49	228
> EUR 10 < 25 million	16	271	27	387
> EUR 25 < 50 million	9	327	16	577
> EUR 50 < 75 million	6	355	8	460
> EUR 75 < 100 million	4	342	4	322
> EUR 100 < 150 million	-	-	-	-
> EUR 150 < 250 million	-	-	-	-
> EUR 250 million	-	-	1	372
At December 31	**73**	**1.447**	**105**	**2.347**

For unconsolidated structured entities in which Aegon Nederland has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflect the carrying values recognized in the statement of financial position of Aegon Nederland's interests in unconsolidated structured entities. Aegon Nederland did not recognize other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

	2019				
Type of asset in unconsolidated entity	Commission and fees	Interest income	Total gains and losses	**Total**	**Investments**
RMBSs	-	1	2	**3**	311
CMBSs	-	-	-	**-**	13
ABSs - CDOs	-	18	-9	**8**	1.050
ABSs - Other	-	1	1	**2**	73
Total	**-**	**20**	**-7**	**13**	**1.447**

	2018				
Type of asset in unconsolidated entity	Commission and fees	Interest income	Total gains and losses	**Total**	**Investments**
RMBSs	-	2	12	**14**	395
CMBSs	-	-	1	**1**	35
ABSs - CDOs	-	20	10	**31**	1.694
ABSs - Other	-	3	-1	**1**	222
Total	**-**	**25**	**22**	**47**	**2.347**

4.2.6. Past due and impaired financial assets

The tables that follow provide information on past due and impaired financial assets for Aegon Nederland. A financial asset is past due when a counterparty has failed to make a payment when it was due under the contract. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Aegon Nederland takes the following factors into account when deciding whether to impair financial assets:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

After the impairment loss is reversed in a subsequent period, the asset is no longer considered to be impaired. When the terms and conditions of the financial assets have been renegotiated, the terms and conditions of the new agreement apply in determining whether the financial assets are past due.

At year-end, no collateral, except for mortgage loans, was held for financial assets which were past due or which had undergone individual impairment. The carrying amount of the assets that are (partly) impaired is:

	2019	2018
Shares	19	25
Mortgage loans	61	114
Other	3	3
At December 31	**83**	**142**
Interest received on impaired financial assets	**2**	**5**

<u>Past due but not impaired financial assets</u>

2019	0-6 months	6-12 months	> 1 year	Total
Mortgage loans	105	3	-	108
Other loans	35	4	6	46
At December 31	**140**	**7**	**7**	**154**

2018	0-6 months	6-12 months	> 1 year	Total
Mortgage loans	112	1	2	115
Other loans	41	2	2	45
At December 31	**153**	**3**	**4**	**160**

4.2.7. Equity market risk and other investment risk

A decline in equity markets may adversely affect Aegon Nederland’s profitability and shareholders´ equity, sales of savings and investment products, and the amount of assets under management. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investments in which Aegon Nederland bears all or most of the volatility in returns and investment performance risk. The existence of direct equity risk is limited, as defined by Aegon Nederland’s Risk policies.

Equity market exposure is also present in policyholders’ accounts for insurance and investment contracts in which funds are invested in equities. Although most of the risk remains with the policyholder, guarantees within certain products may transfer some or all of this risk to Aegon Nederland. Lower investment returns also reduce the asset management fee that Aegon Nederland earns on the asset balance in these products, and prolonged investment under-performance may cause existing customers to withdraw funds and potential customers not to grant investment mandates.

Some of Aegon Nederland’s insurance businesses have minimum investment return guarantees that require Aegon Nederland to establish reserves to fund these future guaranteed benefits when equity market returns do not meet or exceed these guarantee levels. Deteriorating general economic conditions may result in significant decreases in the value of Aegon Nederland’s equity investments.

The general account equity, real estate (mainly residential property) and other non-fixed-income portfolio of Aegon Nederland is as follows:

	2019	2018
Equity funds	5.208	3.049
Common shares	3	3
Hedge funds	-	1
General account shares	**5.212**	**3.052**
Investments in real estate	2.229	2.150
Other financial assets	85	55
At December 31	**7.526**	**5.257**

The tables that follow present specific market risk concentration information for general account shares:

	2019	2018
Financials	3	3
Funds	5.209	3.049
At December 31	**5.212**	**3.052**
Of which past due and/or impaired assets	19	25

Information on closing levels of certain major indices at the end of the last five years

	2019	2018	2017	2016	2015
S&P 500	3.231	2.507	2.674	2.239	2.044
Nasdaq	8.973	6.635	6.903	5.383	5.007
FTSE 100	7.542	6.728	7.688	7.143	6.242
AEX	605	488	545	483	442

Sensitivity analysis of net income and equity to equity markets

The sensitivity of equity and net income to changes in equity markets reflects changes in the market value of Aegon Nederland's portfolios and the strengthening of the provisions for guaranteed minimum benefits, when applicable.

	2019		2018	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Equity increase 10%	16	21	26	13
Equity decrease 10%	-86	-91	-49	-36
Equity increase 25%*	35	48	18	-13
Equity decrease 25%*	-249	-262	-137	-105

(*) To align with Solvency II sensitivities a 25% shock has been calculated. 2018 figures have been adjusted accordingly.

Aegon Nederland uses derivatives to lower Solvency II capital requirements for 'Equity Risk' leading to increased and reversed sensitivity of net income and equity for changes in equity markets.

4.2.8. Liquidity risk

Liquidity risk is inherent in much of Aegon Nederland's activity. Each asset purchased and liability assumed has its own liquidity characteristics. Although most liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement, some can be called on demand. In normal circumstances, a significant proportion of the investment portfolio can be quickly converted into liquid assets but some assets, such as private loans, mortgage loans, real estate and holdings in unlisted enterprises are not highly liquid. If Aegon Nederland requires more than the normal amount of cash at short notice, it may have difficulty selling these investments at attractive prices or in a timely manner.

Aegon Nederland receives premiums from policyholders and, in exchange, is required to make payments at a later time if certain conditions are met. The amounts received are invested primarily in fixed-income assets. Investments in less liquid assets may lead to an increase in expected income from the investment portfolio, but are more difficult to convert into cash if an unexpected payment has to be made to a policyholder or contract holder. Internal liquidity tests are designed to quantify this risk and ensure that there is sufficient liquidity even under extreme conditions. The aim of the internal liquidity test is to compare the liquidity requirement against the amount available in a number of scenarios.

The liquidity position is tested in the following scenarios:
1. Base scenario, assuming current market conditions; this is the 'business as usual' situation.
2. Stressed liquidity scenario, in which both liabilities and assets are stressed.

Events that may have a sudden, adverse impact on available liquidity include the following:
- Large change in interest rates (300 bps upward shock and 100 bps downward);
- Large change in credit spreads (150 bps upward);
- Insolvency of a counterparty, credit facility or bank where current accounts are held.

Available liquidity
Available liquidity is determined by modelling the asset cash flows. These include but are not limited to:
- Contractual repayments and coupon payments;
- Expected advance payments on certain categories of assets, such as early repayment of mortgages;
- Expected extensions of maturity on certain categories of assets;
- Sales proceeds on assets taking into account a maximum haircut of 1% compared with the current mid-rate.

Some cash flows are fixed and/or highly probable, while others depend on the specific market conditions involved in the scenarios. For example, it is assumed in the stresses liquidity scenario that assets other than highly liquid sovereign or corporate bonds which are explicitly and fully guaranteed by the local authorities cannot be sold in the first six months.

Required liquidity
The required liquidity is computed by modelling the cash flows from liabilities, such as:
- Contractual repayments at maturity;
- Benefits and claims;
- Full or partial withdrawal of assets at call;
- Periodic premium payments and potential changes in them;
- New business activities.

For liabilities too, some cash flows are fixed and stable but most will vary considerably when a different liquidity scenario is applied. It is expected there will be limited new commercial activity if Aegon Nederland's rating is cut and the situation in the financial market deteriorates. The amount of cash provided as collateral for some derivative transactions will then likely increase as well.

As part of managing its liquidity risk Aegon Nederland has entered into a repurchase agreement facility for the period 24 August 2018 until 24 August 2023. Under this facility Aegon Nederland has the right to enter into reverse repurchase transactions up to an amount of EUR 500 million to generate liquidity. To date no amount is drawn under the agreement.

Results of the coverage ratios
Aegon Nederland holds EUR 16.1 billion (2018: EUR 17.6 billion) of general account investments in money market products and sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. It is also possible to use such bonds as the basis for repurchase contracts so that liquidity can be drawn from the market. The afore mentioned amounts are based upon Aegon Nederland's internally used definitions when testing the liquidity.

The coverage ratio is calculated after modelling the expected cash flows for assets and liabilities for each period of up to 2 years. The results of the coverage ratio, available liquidity divided by the required liquidity, show that Aegon Nederland had sufficient liquidity in different scenarios and for all tested periods at year-end 2019.

On the basis of project operating cash flows and the income from financial assets, Aegon Nederland expects to be able to continue to meet its liabilities.

Maturity analysis liabilities –gross undiscounted contractual cash flows (for non-derivatives)

The tables below show the remaining contractual maturities for each category of financial liability. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Aegon Nederland has to assume that notice is given immediately and the repayment is presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, if the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date to manage the liquidity risk arising from financial liabilities, Aegon Nederland holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. For this reason, Aegon Nederland believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2019
Borrowings and group borrowings	-	5.425	2.656	802	3	8.885
Savings deposits	8.651	630	1.304	538	394	11.517
Investment contracts	-	8	40	50	102	199
Investment contracts for account of policyholders	-	-	-	-	-	-
Other financial liabilities	634	1.455	126	97	207	2.519
At December 31	**9.284**	**7.519**	**4.126**	**1.487**	**705**	**23.121**

2018	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2018
Borrowings and group borrowings	-	3.480	3.112	987	3	7.583
Savings deposits	7.911	572	1.250	492	361	10.586
Investment contracts	-	10	38	50	112	209
Investment contracts for account of policyholders	-	2	15	24	89	130
Other financial liabilities	486	1.048	32	19	34	1.619
At December 31	**8.397**	**5.112**	**4.446**	**1.572**	**599**	**20.127**

Expected undiscounted cash flows relating to insurance and investment contracts

Aegon Nederland's liquidity management is based on expected claims and benefit payments rather than on the contractual maturities. The projected cash benefit payments in the table below are based on management's best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force.

Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with Aegon Nederland's historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.

The liability amount in the financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in note 16 'Insurance contracts' and note 17 'Insurance contracts for account of policyholders'.

2019	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Insurance contracts	1.783	5.754	6.920	35.900	50.359
Insurance contracts for account of policyholders	1.551	4.094	5.091	16.655	27.391
Investment contracts	10	46	51	102	209
Investment contracts for account of policyholders	-	-	-	-	-
At December 31	**3.344**	**9.895**	**12.063**	**52.657**	**77.958**

2018	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Insurance contracts	1.504	5.606	6.624	36.336	50.071
Insurance contracts for account of policyholders	1.040	3.954	5.165	19.300	29.458
Investment contracts	13	46	55	117	231
Investment contracts for account of policyholders	2	15	24	89	130
At December 31	**2.559**	**9.621**	**11.868**	**55.842**	**79.889**

Maturity analysis – derivatives (contractual cash flows)

The table below shows the liquidity analysis for derivative financial instruments, based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

For gross settled derivatives, cash flows are presented in the table below for both the ‘paying leg’ and the ‘receiving leg’. The credit risk on the ‘receiving leg’ is mitigated by collateral and ISDA ‘master netting’ agreements as explained for ‘credit risk’.

This table includes all financial derivatives regardless of whether they have a positive or a negative value, but excludes the bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the ‘paying leg’ are taken into account for determining the gross undiscounted cash flows.

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	645	2.721	4.158	10.234	17.759
Cash outflows	-	-591	-2.586	-3.244	-8.658	-15.079

2018	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	853	4.636	8.283	16.988	30.760
Cash outflows	-	-924	-4.104	-7.849	-16.650	-29.528

4.2.9. Underwriting risk

Description of the measures used to assess underwriting risks

Underwriting risk arises from deviations of observed actuarial parameters from those used in product pricing assumptions. These are typically actuarial assumptions that cover policyholder behavior and claims. Underwriting risk is the result of both the inaccuracies in projecting liability cash flows over several future time periods, as well as fluctuations in the incidence of claims.

Aegon Nederland monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results in comparison to expectations. Aegon Nederland also performs experience studies for underwriting risk assumptions, where Aegon Nederland’s experience (e.g. actual deaths, lapses, incidences of disability) is compared with previously formulated expectations (assumptions). Conclusions drawn from these studies play an important role in revising assumptions for valuing the business of Aegon Nederland. Where policy charges are flexible in products, Aegon Nederland uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon Nederland also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

Mortality / longevity risk
Mortality risk arises from economic losses due to mortality levels deviating from expectation. When mortality is lower than expected, this is referred to as longevity risk. Policyholders are typically grouped into different classes in which each class is expected to have the same mortality rates. Best estimate assumptions are then developed for each policyholder class. Aegon Nederland is exposed to the risk that the best estimate assumptions are inaccurate.

Aegon Nederland sells certain types of policies that are at risk if mortality increases, such as term life insurance, and sells certain types of policies that are at risk if mortality decreases such as annuity and pension products.

Policyholder behavior risk
Policyholder behavior risk arises from economic losses due to policyholder behavior deviating from expectation. Insurance contracts typically provide policyholders with a variety of options that they may or may not exercise. Policyholder behavior risk is the risk that actual policyholder behavior varies from the assumptions built into the reserve calculations. This includes assumptions about lapses, withdrawals, premium payment levels, allocation of funds, and the utilization of possible options in the products.

The above mentioned elements of policyholder behavior risk all relate to insurance contracts. The prepayment risk on mortgages constitutes another important component of policyholder behavior risk. It is the risk of higher or lower prepayments than anticipated, including early redemption rates, thus impacting the value of the mortgage portfolio.

In general, Aegon Nederland is at risk if policy lapses decrease as in some cases higher claim payments including guaranteed returns have to be provided.

Expense risk
Expense risk is the risk that the expenses arising from servicing (re)insurance contracts develop differently than expected. Various types of expense risk are distinguished:

- Expense inflation risk is the risk that expenses inflate at a higher rate than that assumed in the calculation of the technical provisions. It does not cover the risk of general price inflation increases, which would be covered by mismatch risk; and
- Expense level risk is the risk that unexpected changes in maintenance expenses for in-force business will occur (assuming that the volumes of business are in line with best estimate assumptions). The risk therefore corresponds to an increase in the total expenses. It is effectively the change in the best estimate expense assumption given a 1-in-200 year expense event.

Most expenses Aegon Nederland has within its business will be subject to expense risk if not contractually defined. These types of expenses may include salaries, office space, software licenses and fees to intermediaries.

Risk Concentrations

In addition to the risk tolerance limits it's a common practice to address 'concentration' of risk on insured lives, using a risk limit per single life (or joint lives). The exposures on a few lives with a much higher risk than the average in the portfolio can create a too high volatility in the results. Limiting such exposures reduces the impact of process risk and also increases the stability of the underwriting results. These risk limits per single life (or joint lives) will be further referred to as 'retention limits'.

The retention limits are typically chosen in such a way that the remaining exposure is acceptable, relative to the size of the earnings and the size of the balance sheet of the company. Risk mitigation and managing compliance with the retention limits can be achieved by reinsurance (external or internal), by the underwriting process or by the product design.

For non-life, concentrations of underwriting risk arise in case a catastrophic event causes a large number of claims. Concentration risks identified by Aegon Schadeverzekering, with a material impact on Own Funds are Windstorm & Hail and Accident Concentration. The first Concentration Risk is the loss due to one or more Wind or Hail storms causing damage to insured buildings in large parts of the country, net of reinsurance. The second Concentration Risk represents the net of reinsurance impact of an accident occurring in a single location, affecting a large number of persons carrying some form of Accident & Health coverage provided by Aegon Schadeverzekering.

Risk mitigation techniques used for underwriting risks

Aegon Nederland has put in place a number of contracts with external parties that mitigate its exposure to underwriting risk and qualify either as reinsurance contracts or hedges. In case of reinsurance, specific insurance obligations are transferred to a reinsurer. In the hedge contracts, pay-outs are linked to the development of a general Longevity index, which is closely related to Aegon Nederland's insurance obligations.

Reinsurance
Aegon Nederland reinsures part of its insurance exposure to third-party reinsurers under traditional indemnity, and 'excess of loss' contracts. Reinsurance helps Aegon Nederland manage, mitigate and diversify its insurance risks, and limit the maximum loss it may incur.

Aegon Levensverzekering has reinsured its term life assurance through quota-sharing contracts with Reinsurance Group of America and Munich Re.

In December 2013, Aegon Nederland reinsured a specified portfolio of annuities against possible future mortality improvements through a longevity reinsurance contract between its subsidiary Aegon Levensverzekering and Blue Square Re N.V. ('Blue Square Re'), a 100% subsidiary of Aegon N.V., Aegon Nederland's ultimate parent company. In December 2019, Aegon Levensverzekering derecognized this longevity reinsurance contract due to the termination of this reinsurance contract.

In December 2019, Aegon Levensverzekering entered into a longevity reinsurance contract with Canada Life Reinsurance. The contract reinsures a specified portfolio of insurance contracts against possible future mortality developments. The related portfolio is approximately one quarter of the longevity exposure of Aegon Levensverzekering. The agreement includes both deferred and in-payment pensions and annuities. The contract commenced on December 31, 2019, and will run until the portfolio runs off. Refer to note 12 'Deferred expenses' for more information.

For non-life, Aegon Schadeverzekering reinsures its property, general third party liability, legal aid, disability and motor third-party liability business. The main counterparties are Hannover Re and SCOR Re Europe. For property insurance, an 'excess of loss' contract is in place with a retention level of EUR 350,000 for each separate risk, and EUR 2,5 million for each windstorm event. For motor third-party liability insurance, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 750,000 for each event. For general third-party liability, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 350,000 for each event. In 2018 for disability a reinsurance agreement has been signed with Munich Re. The structure of the reinsurance agreement is a quota share of 95% for the annual income portions up to and including EUR 100,000 and a quota share of 10% for benefits related to the annual income portions above EUR 100,000. In 2019 a reinsurance agreement with respect to the legal aid portfolio ('Rechtsbijstandsverzekeringen)' has been signed with Arag SE Nederland. Aegon Schadeverzekering has fully reinsured the risk for this portfolio.

Hedges
Aegon Nederland partially offsets the risk of future longevity increases related to a part of its insurance liabilities by buying longevity index derivatives. These longevity derivatives will pay out if the mortality rates in future years have decreased more than a pre-determined percentage compared with the base scenario at the moment of signing the contract. The longevity hedge provides additional balance sheet protection in a worst case scenario. The effectiveness of the risk mitigation program is monitored by periodically assessing the impact on the hedge under a variety of adverse scenarios for Longevity and Mortality risk.

Risk sensitivity for underwriting risks

The main underwriting risk Aegon Nederland is exposed to is longevity risk, i.e. the risk that life expectancy improves and policyholders as a whole will live longer. As a result, policyholders, who are entitled to pension benefits after retirement, will receive these benefits over a longer period. On the other hand, payments to policyholders holding coverage of death benefits, such as Term and Whole Life Insurance, are expected to decline when life expectancy improves.

In the sensitivity scenario for longevity risk, the impact of a 10% decrease and 10% increase of mortality rates in all future years is analyzed, including coverage of pension as well as death benefits. The impact on net income and shareholders' equity is shown below.

If mortality rates decrease expected future benefits to policyholders increase markedly, as the increase in future pension benefits outweighs the reduction of death benefit payments. As a result, the value of obligations to policyholders increases and net income and shareholders' equite decline.

Aegon Nederland is also at risk if policy lapses decrease or if morbidity rates increase, but to a much lesser extent than in case of a decrease in mortality rates. If lapses decrease, then higher claim payments including guaranteed returns have to be provided in some cases. If morbidity rates increase, then more people receive benefits from their policy (mainly related to the WIA-portfolio).

	2019		2018	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
20% increase in lapse rates	48	48	57	40
20% decrease in lapse rates	-54	-54	-63	-45
5% increase in mortality rates*	355	392	218	400
5% decrease in mortality rates*	-356	-398	-216	-409
10% increase in morbidity rates	-104	-104	-28	-93
10% decrease in morbidity rates	89	89	25	80

(*) To align with SII sensitivities a 5% shock has been calculated. The 2018 figures have been adjusted accordingly.

The sensitivity of net income and equity for parallel shifts in underwriting shocks is in line with prior year sensitivity, except for the fact that net income sensitivity for mortality and morbidity shocks is impacted by the LAT deficit in 2019 and therefore increased. For mortality this is (especially for impact on equity) partly offset by the Sunrise transaction. Due to this transaction, ~25% of the longevity risk of the population has been transferred to Canada Life, resulting in less mortality sensitivity on the insurance provision compared to 2018.

4.3. Regulation and supervision

4.3.1. General

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The Wft embeds the cross-sectorial functional approach within the Dutch supervisory system. The supervision of financial institutions pursuant to the Wft rests with the DNB and the Dutch Authority for the Financial Markets (AFM).

The DNB is responsible for prudential supervision, while the AFM supervises the conduct of business of financial institutions and the conduct of business on financial markets. The aim of the DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector. With regard to banks, the DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank (ECB).

The AFM's conduct of business supervision focuses on ensuring orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to customers.

The Dutch supervisory authorities have a number of formal tools to exercise their supervisory tasks. These tools include the authority to request information, if this is necessary for the purpose of prudential supervision; and the power to issue formal instructions to financial institutions, to impose fines, or to publish sanctions. The DNB, as prudential supervisory authority, can, under certain circumstances, require a recovery plan, a short-term financing plan, appoint a trustee, draw up a transfer plan or (ultimately) withdraw the license of a financial institution.

4.3.2. Financial supervision of insurance companies

The Solvency II framework consists of an EU Directive and has consequently been transposed into the Dutch Financial Supervision Act. A large part of the Level II Solvency II rules are, however, also set out in EU regulations, which apply directly in EU member states, and as a consequence have not been implemented into national legislation, such as in the Decree on Prudential Rules under the Wft (Besluit prudentiële regels Wft).

The following insurance entities of Aegon Nederland are subject to prudential supervision of the DNB:

- Aegon Levensverzekering;
- Aegon Schadeverzekering; and
- Aegon Spaarkas

An insurance company is neither permitted to conduct both life insurance and non-life insurance business within a single legal entity (with the exception of reinsurance), nor to carry out both insurance and banking activities within the same legal entity. Within Aegon Nederland, Aegon Levensverzekering N.V. and Aegon Spaarkas N.V. conduct life insurance activities. Aegon Schadeverzekering N.V. conducts non-life insurance activities. Prudential supervision is exercised by the home state supervisory authority (DNB in the Netherlands). Insurance companies in the Netherlands may conduct their activities on a cross-border basis or through a branch office based on the mutual recognition of (prudential) supervision in the EU (the so-called 'European passport'). Aegon Nederland does not have material cross-border insurance business or business conducted through branch offices elsewhere in the EU.

4.3.3. Financial supervision of credit institutions

As of November 4, 2014, Aegon Bank has been subject to indirect supervision by the ECB under the new European system of banking supervision, the Single Supervisory Mechanism (SSM), which comprises the European Central Bank and the relevant national authorities of participating EU Member States. The SSM is one of the elements of the Banking Union. The ECB may give instructions to the DNB in respect of Aegon Bank or even assume direct supervision over the prudential aspects of the Aegon Bank's business. Pursuant to the banking supervision by the DNB, Aegon Bank is (among others) required to file monthly regulatory reports and an audited Annual Report.

Credit institutions are subject to regulatory requirements. These include (among others) capital and liquidity requirements, the requirement to maintain a certain leverage ratio, governance and reporting requirements in line with the requirements of EU Directive 2013/36/EU (CRD IV) and EU Regulation 575/2013 (CRR).

CRD IV and the CRR are the European Union's translation of the Basel III accord for prudential supervision of credit institutions and investment firms. The CRR is binding for all EU member states and became effective on January 1, 2014. CRD IV is an EU directive, and is required to be implemented into local legislation. CRD IV has been implemented in the Netherlands by means of amending the Wft on August 1, 2014. The application in full of all measures under CRD IV (including any national implementation thereof in the Netherlands) has to be completed before January 1, 2019.

The CRR has been applied across all EU member states since January 1, 2014. The CRD IV and CRR frameworks include requirements with respect to capital adequacy, and introduce requirements with respect to increased capital against derivative positions, the introduction of two supplementary buffers (a capital conservation buffer and a counter-cyclical buffer), a new liquidity framework (liquidity coverage ratio and net stable funding ratio and a leverage ratio . The leverage ratio is defined as Tier-1 capital divided by a measure of non-risk weighted assets. If Basel III is followed under CRD IV, the leverage ratio may not fall below 3%, although uncertainty still remains as to the exact percentage and the scope of the leverage ratio under CRD IV. With respect to the percentage, the Dutch government has announced that it wishes to implement a leverage ratio of at least 4% for large Dutch banks, which does not apply to Aegon Bank N.V.. The ultimate aim of Basel III/CRD IV is to reduce leverage in order to bring institutions' unweighted assets more in line with their Tier-1 capital. The capital requirements include qualitative in addition to quantitative requirements.

Capital of the highest quality, Common Equity Tier 1, forms a substantial part of the capital of a credit institution. Additional Tier 1 capital forms the rest of the Tier 1 capital. In addition, the capital of a credit institution may be composed of Tier 2 capital, which is of a lesser quality than Tier 1 capital.

EU Directive 2014/59/EU (the Banking Recovery and Resolution Directive, BRRD) and Regulation 806/2014 on the Single Resolution Mechanism (the SRM Regulation) form the European framework for recovery and resolution for (among others) ailing banks, certain investment firms and their holding companies. The BRRD was implemented in the Netherlands on November 26, 2015, by means of an amendment of the Wft (the BRRD Implementation Act). The SRM Regulation was adopted on July 15, 2014. Those parts of the SRM Regulation that deal with recovery and resolution entered into force on January 1, 2016.

The BBRD provides for early intervention measures that may be imposed by the national competent authority in respect of Aegon Bank in the event that its financial condition is deteriorating. These early intervention measures could pertain, among others, to a change of its legal or operational structure, the removal of (individuals within) senior management or the management body, or the appointment of a temporary administrator to work together with or replace such (individual within) senior management or management body. The national resolution authority may also under certain circumstances decide to write down or convert relevant capital instruments, including Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, in a specific order.

Were Aegon Bank to fail or be likely to fail and the other resolution conditions were also met, the national resolution authority would be able to place Aegon Bank under resolution. As part of the resolution scheme to be adopted by the national resolution authority it may decide to apply certain resolution tools and exercise its powers pursuant to the implemented BRRD in order to give effect to such resolution tools. In addition, the SRM Regulation and the BRRD Implementation Act introduce the bail-in tool which gives the national resolution authority the power to write down or convert into equity certain debt and other liabilities of the institution.

Pursuant to the SRM Regulation and the BRRD Implementation Act, banks are required at all times to meet a minimum amount of Own Funds and eligible liabilities (MREL), expressed as a percentage of the total liabilities and Own Funds. The competent resolution authority will set a level of minimum MREL on a bank-by-bank basis based on assessment criteria due to be set out in technical regulatory standards.

4.4. Capital management and solvency

4.4.1. Insurance activities

Strategic importance

Aegon Nederland's approach towards capital management plays a vital role in supporting the execution of Aegon Nederland's strategy. Aegon Nederland's capital management priorities include the shift of capital to products that offer higher growth prospects and return prospects, the shift from capital intensive spread business to capital light fee business and from defined benefit plans to defined contribution plans for our clients.

Management of capital

Disciplined risk and capital management support Aegon Nederland's decisions in deploying the capital that is generated in Aegon Nederland's businesses. Aegon Nederland balances the funding of new business growth with the funding required to ensure that Aegon Nederland's obligations towards policyholders are always adequately met.

Aegon Nederland's goal is to maintain a strong financial position and be able to sustain losses from adverse business and market conditions. The company's overall capital management strategy is based on adequate solvency capital, capital quality, and the use of leverage.

Aegon Nederland's ERM framework ensures that Aegon Nederland and its subsidiaries are adequately capitalized and that Aegon Nederland's obligations towards policyholders are always adequately met. As a specific part of this larger framework, Aegon Nederland's capital management framework builds on a set of key pillars: the use of internal target capital management zones and supported by robust risk and capital monitoring processes that timely triggers and escalates interventions if and when needed to ensure that capital is always being managed towards these internal target ranges and is prevented from falling below the minimum regulatory capital requirements.

Adequate capitalization

During 2018 and 2019 all regulated entities within Aegon Nederland complied with externally imposed minimum capital requirements.

The capitalization of the Aegon Nederland and its operating units is managed in relation to the most stringent of local regulatory requirements, rating agency requirements and/or self-imposed criteria. Aegon Nederland manages its Solvency II capital in relation to the required capital.

Aegon Nederland's capital management framework is built on, among other things, managing capital in the operating units within target capital management zones. Under Aegon Nederland's capital management framework, the bottom-end of the capitalization target range[4] of Aegon Nederland is 155% and for the subsidiaries of Aegon Nederland is as follows:

- Aegon Levensverzekering: 150%;
- Aegon Schadeverzekering: 145%;
- Aegon Spaarkas: 155%.

In the following table a reconciliation between the group equity under IFRS equity and the Own Funds under Solvency II is presented.

	31-12-2019*	31-12-2018
Shareholders' Equity (IFRS)	6.775	7.272
Revaluations	-813	-1.030
Available own funds	5.962	6.242

*The available Own Funds for 2019 is an estimate. Concerning the individual insurance entities, it is not final until filed with the regulator and is subject to supervisory review. For Aegon Nederland, no filing requirements apply. Furthermore, it should be noted that as per 2019 Aegon Nederland reports Solvency II figures excluding banking activities (Aegon Bank), in line with peers. The comparatives have been adjusted accordingly.

The available own funds disclosed are without taking into account the dividend paid in February 2020.

The decrease in Own funds is driven by market movements (namely the strong decrease in the EIOPA VA, widening of mortgage spreads) and model and assumption changes (including the UFR decrease to 3.9%), with an offset from normalized capital generation and other movements, amongst which the plan amendment of the own pension fund and movements within other entities.

The Solvency II revaluations stem from the difference in valuation between IFRS-EU and Solvency II frameworks, which can be grouped into two categories:

- Items that are not recognized under Solvency II. The most relevant examples of this category include Goodwill, DPAC and other intangible assets;
- Items that have a different valuation treatment between IFRS-EU and Solvency II. Solvency II is a market consistent framework hence all assets and liabilities are to be presented at fair value while IFRS-EU also includes other valuation treatments in addition to fair value. The most relevant examples of this category include Loans and Mortgages, Reinsurance Recoverables, Deferred tax assets balances and Technical provisions.

Minimum regulatory solvency requirements

Insurance laws and regulations contain minimum regulatory capital requirements of 100% Solvency Capital Requirement (SCR) for insurance companies in the European Union. For insurance companies in the European Union, Solvency II also defines a lower capital requirement, the Minimum Capital Requirement (MCR). An irreparable breach of the MCR would lead to the withdrawal of the insurance license. Aegon monitors these minimum regulatory capital requirements as the level around which the regulator will formally require management to provide regulatory recovery plans.

During 2019, Aegon Nederland and its main subsidiaries continued to comply with the minimum regulatory solvency requirements, driven by the fact that Aegon Nederland’s internal target capital levels are well above 100% SCR levels.

Capital restrictions

Aegon Nederland is subject to legal restrictions on the amount of dividends it can distribute to its shareholder. Refer to the disclosure for capital restrictions included in the statutory financial statements in note 8.2 ‘Statement of changes in equity’. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

[4] At the end of 2018, Aegon Nederland updated its modeling of the dynamic volatility adjustment to align with the guidance from EIOPA. This model change results in increased sensitivities, and as a result the target zones for Aegon Nederland (and subsidiaries) are adjusted after approval by the Supervisory Board in 2019.

The ability of Aegon Nederland's main subsidiaries, principally insurance companies, to pay dividends to Aegon Nederland is constrained by the internal thresholds that Aegon Nederland set to adequately capitalize its subsidiaries. These levels exceed the levels set by DNB and governed by DNB. Based on the capitalization level of the subsidiary, DNB is able to restrict and/or prohibit the transfer of dividends to Aegon Nederland.

The capitalization level and shareholders' equity of the subsidiaries can be impacted by various factors (e.g. general economic conditions, capital markets risks, underwriting risk factors, changes in government regulations, legal and arbitrational proceedings). To mitigate the impact of such factors on the ability of subsidiaries to pay dividends, the subsidiaries hold additional capital in excess of the levels required by DNB, which is reflected in Aegon Nederland's internal target capitalization ranges.

Capital quality
The majority of the capital of Aegon Nederland qualifies as unrestricted Tier 1 capital, except for the net DTA position which qualifies as Tier 3 capital (EUR 127 million). Available Own Funds are equal to eligible Own Funds.

4.4.2. Banking activities

Aegon Nederland's banking activities are executed via its subsidiary Aegon Bank. Pursuant to guidance issued by the Dutch Central Bank, the level of capital is subject to certain requirements. Aegon Bank's capital is reviewed against its on-balance sheet and off-balance sheet assets. These assets are weighted according to their risk level. The minimum total capital ratio (also known as the BIS ratio) is 8%. Due to the introduction of CRD IV the CET1 ratio is considered a better measure for capital management purposes than the BIS ratio. During the year Aegon Bank fully complied with the required CET1 ratio. At year-end the CET1 ratio amounts to 19.8% (2018: 21.6%).

4.5. Product information

4.5.1. Organizational structure

Aegon Nederland operates through a number of brands, including Knab, TKP Pension and the Robidus group. Aegon is itself one of the most widely recognized brands in the Dutch financial services sector. Refer to note 41 'Group companies' for information on Aegon Nederland's primary subisidiaries and developments in legal structure. Aegon Nederland has the following reporting segments:

- Life;
- Non-life;
- Banking; and
- Service Business.

Strategic categories

Principal entities	Manage for Value	Drive for Growth	Scale-up for the Future
	Product lines		
Life Aegon Levensverzekering N.V. Aegon Spaarkas N.V.	• Pension DB and DC insurance • Individual Life Insurance Service Book • Immediate life annuities	• Immediate pension fixed and variable annuities	• Term Life
Non-Life Aegon Schadeverzekering N.V.			• Non-Life Property & Casualty • Non-Life Accident & Health
Banking Aegon Bank N.V. (Knab)			• Knab / Bank • Retail Investment
Service business TKP Pensioen B.V. Robidus Groep B.V. Aegon Cappital B.V. Aegon Hypotheken B.V.		• Pension Service providing • Disability services • Asset Gathering • Asset Origination	

5. Cash and cash equivalents

	2019	2018
Cash on hand and balances with banks	3.087	2.210
Short term bank deposits	1.382	2.058
Money market investments	4.564	1.740
Short term collateral	-	1
At December 31	**9.032**	**6.010**

The carrying amounts disclosed reasonably approximate the fair values at year-end. The collateral relates to securities lending and repurchase agreements and margins on derivatives transactions. A corresponding liability to repay the cash is recognized in other liabilities.

Investment of cash collateral received is restricted through limitations on credit worthiness, duration, approved investment categories and borrower limits. Aegon Nederland earns a share of the spread between the collateral earnings and the rebate paid to the borrower of the securities. Refer to note 39 'Transfers of financial assets' for more information on collateral and reverse repurchase obligations.

Cash and cash equivalents include cash and demand balances held at DNB. DNB requires Aegon Bank to place 1% of their deposits with agreed maturity or the savings accounts (without restrictions to withdraw their money) in an account with DNB These deposits are not freely available. Other cash and cash equivalents are unrestricted. Due to the nature of this asset the total amount classifies as current assets.

	2019	2018
Average balance on deposit with DNB at year-end	1.785	1.110
Average minimum required balance on deposit by DNB for year-end period	79	72

6. Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and investments in investment funds. Refer to note 37 'Fair value of assets and liabilities' for information on fair value measurement.

	Note	31-12-2019	31-12-2018
Available-for-sale financial assets (AFS)	6.1	19.664	20.024
Loans (amortized cost)	6.1	34.235	32.935
Financial assets at fair value through profit or loss (FVTPL)	6.1	5.234	3.063
Total financial assets, excluding derivatives		**59.132**	**56.021**
Investments in real estate	6.3	2.229	2.150
Total investments for general account		**61.362**	**58.171**

6.1. Financial assets, excluding derivatives

2019	AFS	Loans	FVTPL	Total	Fair value
Shares	23	-	5.189	5.212	5.212
Debt securities	19.556	-	45	19.601	19.601
Mortgage loans	-	29.567	-	29.567	33.111
Private loans	-	4.440	-	4.440	5.109
Other	85	227	-	312	313
At December 31	**19.664**	**34.235**	**5.234**	**59.132**	**63.346**

2018	AFS	Loans	FVTPL	Total	Fair value
Shares	29	-	3.023	3.052	3.052
Debt securities	19.940	-	40	19.980	19.980
Mortgage loans	-	28.636	-	28.636	31.686
Private loans	-	4.068	-	4.068	4.452
Other	55	231	-	286	286
At December 31	**20.024**	**32.935**	**3.063**	**56.021**	**59.456**

	2019	2018
Current	9.552	6.657
Non-current	49.581	49.364
At December 31	**59.132**	**56.021**

Certain mortgage loans shown within the category amortized loans are designated in portfolio fair value interest rate hedging relationships, and are fair valued with respect to the hedged interest rate. This resulted in a higher carrying value of EUR 768 million as at December 31, 2019 (2018: EUR 393 million higher). None of the financial assets has been reclassified during the financial year. Other loans comprise deposits with insurance companies with respect to reinsurance agreements. These are not freely available.

6.2. Loans allowance account

	2019	2018
At January 1	126	113
Addition charged to income statement	71	34
Amounts written off	-10	-13
Other movements	-26	-8
At December 31	**161**	**126**

6.3. Investments in real estate

	2019	2018
At January 1	2.150	1.495
Additions	169	469
Property under construction	10	-
Disposals	-259	-39
Fair value gains / (losses)	159	225
At December 31	**2.229**	**2.150**

Aegon Nederland's investments in real estate consists mainly of residential property. The investments in real estate are deemed non-current. Aegon Nederland has entered into long-term residential property leases that can be terminated subject to a short-term notice by the tenant. Although most rental contracts have a clause that stipulates that the annual rent can be increased based on a fixed schedule or market conditions, for the majority of these residences the possibility of increasing rent is limited. Under Dutch law, the maximum annual rent increase on residential property rented in the affordable housing segment is specified by the Dutch national government and equals the annual inflation rate plus a small margin.

There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal. The entire portfolio of investments in real estate was appraised during the reporting period by independent external valuators.

Rental income is reported as part of investment income in the income statement, see note 28 'Investment income'. Additional information on rental income is presented in the table below:

	2019	2018
Theoretical rental income	103	100
Minus missed rental income vacant investment property	2	2
Gross rental income	**101**	**98**
Direct operating expenses of property that generated rental income	-31	-34
Net income on real estate	**70**	**64**

7. Investments for account of policyholders

Investments for account of policyholders comprises of financial assets held by investment funds to meet obligations to third parties. Investment returns on these assets are passed on to the policyholder. The fees for managing these investments are included in note 29 'Fee and commission income'. See also note 37.3 'Summary of financial assets and financial liabilities at fair value through profit or loss'. The investments for account of policyholders are deemed non-current.

	2019	2018
Shares	8.329	7.559
Debt securities	8.194	7.855
Investments in investment funds	696	747
Mortgage loans	1.815	1.815
Other financial investments	661	914
Cash and cash equivalents	3.495	2.905
At December 31	**23.190**	**21.796**

Almost all shares and debt securities for account of policyholders are publicly traded.

8. Derivatives

	Derivative asset		Derivative liability	
	2019	2018	2019	2018
Derivatives not designated in a hedge	8.225	4.711	7.134	4.628
Derivatives designated as fair value hedges	107	166	784	511
At December 31	**8.331**	**4.877**	**7.917**	**5.139**

	2019	2018
Current	-105	140
Non-current	519	-401
Total net derivatives at December 31	**414**	**-262**

Derivatives not designated in a hedge – general account

	Derivative asset		Derivative liability	
	2019	2018	2019	2018
Derivatives held as an economic hedge	8.225	4.711	5.395	2.946
Bifurcated embedded derivatives	-	-	1.739	1.682
At December 31	**8.225**	**4.711**	**7.134**	**4.628**

Derivatives are classified as economic hedges to the extent that they do not qualify for hedge accounting or where Aegon Nederland has elected not to apply hedge accounting. Bifurcated embedded derivatives are embedded in unit-linked insurance contracts in the form of guarantees for minimum benefits.

Derivatives designated as fair value hedges
Macro fair value hedge accounting under the EU carve out is applied by subsidiaries Aegon Bank and Aegon Hypotheken.

	2019	2018
Fair value changes mortgage loans recognized in income statement under EU carve-out	374	31
Offsett amount of fair value changes recognized on derivatives used as hedging instrument	-354	-44
Total accounting ineffectivenes under EU carve-out recognized in the income statement	**20**	**-14**

Fair value of outstanding derivatives designated under fair value hedge accounting was:

	2019	2018
Presented as asset	107	166
Presented as liability	784	511
At December 31	**-677**	**-345**

Effect of uncertainty of IBOR reform on derivatives designated as fair value hedges
The future of IBORs (Interbank Offered Rates) such as Euribor, Eonia and LIBOR has been a major topic on the global agenda since the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of leading interest rate benchmarks in 2013. The FSB proposed new standards to reform interest rate benchmarks and the use of transaction-based input data instead of non-transactional/ panel input data. In the EU this is adopted in the new Benchmark Regulation (BMR) which stipulates that from January 2020 only BMR compliant benchmarks may be used within the EU.

Despite current uncertainties on how the transition from IBORs to alternative benchmarks will be managed, it is widely acknowledged that IBOR benchmarks impact financial products and contracts, including a.o. derivatives, corporate bonds, structured debt products, deposits and mortgages. Aegon N.V. recognizes that IBOR transitions potentially have implications for all reporting units, including its insurance, asset management and banking activities. In order to facilitate an orderly transition from the different IBORs to the new risk free rates Aegon N.V. has established for each region a project group led by the local CFO. Transition plans have been prepared by Aegon Nederland covering the impact on the business and operating models and include among others project solutions and actions, timelines and ownership to ensure timely preparation and implementation. We have identified a number of legal, financial, pricing, operational and conduct risks and are in the process of addressing these. We continue to analyse these risks and their evolution over the course of the transition. In addition we will continue to engage with industry participants on the transition while monitoring further transition guidance and insights from the different market working groups and regulators.

The majority of the fair value and cash flow hedges are directly exposed to changes in benchmark rates (predominantly Eonia, Euribor, and USD Libor), as it is not clear until when these benchmark rates will be continued and how they will transition to alternative rates. For example, the majority of financial instruments designated as fair value hedges have a maturity date beyond December 31, 2021 (Net notional amount: EUR

10,571 million). Aegon Nederland applies the reliefs offered in IAS 39 to ensure that this uncertainty does not result in the early termination of hedge accounting, whilst also assuming for measurement purposes that, owing to the general principle of equivalence, transitions to alternative rates will not result in significant contract modifications.

9. Investments in associates

	2019	2018
At January 1	85	74
Additions	31	13
Share in net income	-1	2
Dividend	-1	-1
Share in changes in associates's equity	-2	-1
Other	-7	-1
At December 31	**106**	**85**

All associates are unlisted and are accounted for using the equity method and are considered to be non-current. The investments in associates include stakes in insurance companies that are required to maintain a minimum solvency margin based on local directives. Such restrictions can affect the ability of these associates to transfer funds in the form of cash dividends, or repayment of loans or advances, and therefore, there can be no assurance that these restrictions will not become a limitation in the future. There are no unrecognized shares of losses in associates. The financial statements of all associates have the same reporting date as Aegon Nederland.

In 2019 Aegon Nederland invested EUR 20 million in OB Capital Cooperatief U.A. (2018: EUR 10 million) and EUR 10 million in Aegon Growth Capital. Refer to note 41.2 ‘Investments in associates and joint ventures’ for more information.

10. Investments in joint ventures

	2019	2018
At January 1	1.001	1.008
Additions	89	84
Disposals	-1	-211
Share in net income	125	144
Dividend	-55	-24
At December 31	**1.159**	**1.001**

In 2018, the Amvest Residential Dynamic fund with a carrying value of EUR 211 million was liquidated. Based on the termination agreement, Aegon Nederland received a distribution of its share of the assets and liabilities. As a result, the investment properties, being the main asset class in the fund, were recognized as part of investments in real estate of Aegon Nederland.

All joint ventures are unlisted and are accounted for using the equity method and are considered to be non-current. There are no unrecognized shares of losses in joint ventures. The financial statements of all joint ventures have the same reporting date as the group.

Summarized financial information of material joint ventures
Aegon Nederland considers its investment in Amvest entities as material joint ventures. The summarized financial information presented below are the amounts included in the IFRS financial statements of Amvest on 100% basis.

Summarized statement of financial position	31-12-2019	31-12-2018
Cash and cash equivalents	124	132
Other current assets	42	157
Total current assets	**166**	**289**
Non-current assets	4.318	3.304
Total assets	**4.484**	**3.593**
Current financial liabilities excluding trade payables and other provisions	-	-
Other current liabilities	175	154
Total current liabilities	175	154
Non-current financial liabilities excluding trade payables and other provisions	707	590
Other non-current liabilities	-	-
Total non-current liabilities	707	590
Total liabilities	**882**	**745**
Net assets	**3.602**	**2.848**
Summarized statement of comprehensive income		
Revenues	111	89
Interest expense	-8	-6
Profit or loss from continuing operations	406	438
Income tax expense or income	-9	-6
Post-tax profit or loss from continuing operations	**398**	**432**
Other comprehensive income	-	-
Total comprehensive income	**398**	**432**
Dividends received from joint ventures	55	24

Refer to note 41.2 ‘Investments in associates and joint ventures’ for a listing of the principal investments in joint ventures and the percentage holding of Aegon Nederland.

A reconciliation of the summarized financial information to the carrying amounts of the joint ventures is as follows:

	2019	2018
Net assets of joint venture as presented above	3.602	2.848
Group share of net assets of joint venture, excluding fair value adjustments	1.159	1.001
Carrying amount of investments in joint ventures	**1.159**	**1.001**

Of the non-current assets, EUR 278 million is related to investment property under construction (2018: EUR 323 million).

11. Loans and group loans

	2019	2018
Loan Aegon Derivatives N.V.	910	560
Loan Aegon N.V.	3	1
Loan Blue Square Re	-	22
At December 31	**913**	**583**
current	913	583
non-current	-	-
Total	**913**	**583**

The loan with Aegon Derivatives is cash collateral received under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Nederland. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled daily. EONIA interest is applied on the variation margin. Clearing costs will be charged on quarterly basis.

The carrying amounts disclosed reasonably approximate fair value at year-end. Refer to note 37 ‘Fair value of assets and liabilities’ for information on fair value measurement.

12. Deferred expenses

	2019	2018
At January 1	66	76
Costs deferred	2	10
Amortization through income statement	-3	-20
Impairment losses	-65	-
Deferred cost of reinsurance	360	-
At December 31	**360**	**66**
Current	21	12
Non-current	339	53
Total	**360**	**66**

In 2019 the DPAC was fully impaired due to the LAT deficit of Aegon Nederland. Refer to note 16 ‘Insurance contracts’ for more information on the LAT deficit.

The balance at year-end 2019 consists entirely of the deferred cost of reinsurance. In December 2019, Aegon Levensverzekering entered into a longevity reinsurance contract with Canada Life Reinsurance. The contract reinsures a specified portfolio of insurance contracts (EUR 7.6 billion based on measurements in accordance with IFRS4) against possible future mortality developments. The reinsurer will pay benefits as long as the participants live and receive fixed payments from Aegon Levensverzekering. EUR 360 million is recognized as deferred cost of reinsurance with regard to this reinsurance contract, which will be amortized over the duration of the underlying insurance contracts.

A net reinsurance liability for an equal amount is recognized accordingly (as ‘Payables out of reinsurance’ in note 26 ‘Other liabilities and accruals’). Similar to the measurement of reinsured insurance liabilities under IFRS 4 the reinsurance contract components deferred cost of reinsurance and net reinsurance liability are measured based on current non-financial assumptions and non-current contractual financial assumptions.

13. Other assets and receivables

	2019	2018
Real estate held for own use	108	101
Equipment	42	45
Right-of-use assets	26	-
Other	-	20
Non current	**176**	**166**
Investment debtors	996	516
Receivables from policyholders	212	199
Current account with group companies	263	28
Reverse repurchase agreements	76	-
Accrued interest	563	531
Prepaid expenses	24	29
Other	164	289
Provision for doubtful debts	-7	-12
Current	**2.291**	**1.579**
At December 31	**2.466**	**1.745**

The carrying amounts disclosed reasonably approximate the fair values at year-end. Refer to note 37 'Fair value of assets and liabilities' for information on fair value measurement.

'Other' consists partly of margin futures held for derivatives (2019: EUR 48 million, 2018: EUR 219 million). The provision for doubtful debts relates to receivables from policyholders.

In the cash flow statement the movement in this account in the book year is disclosed the line items 'Accrued income and prepayments'.

13.1. Real estate held for own use

Cost	2019	2018
At January 1	104	130
Revaluations	9	-11
Reversal of depreciation	-2	-15
At December 31	**111**	**104**
Accumulated depreciation		
At January 1	3	15
Depreciation through income statement	2	3
Reversal of depreciation	-2	-15
At December 31	**3**	**3**
Net book value at December 31	**108**	**101**

The portfolio of investments in real estate held for own use was appraised in 2019 (86%) and 2017 (14%). Key assumptions in determining the fair value were the rental income and the lease term of the property. The useful life of real estate held for own use is between 40 and 50 years. Real estate held for own use has not been provided as collateral for liabilities nor are ownership rights restricted. Depreciation through the income statement is included in note 33 'Commissions and expenses'.

14. Intangible assets

	2019	2018
Goodwill	89	85
Software	32	30
Other intangible assets	31	45
	152	**160**

2019	Goodwill	Software	Other intangible assets	Total
Cost				
At January 1	85	49	107	242
Additions	-	23	-	23
Other movements	4	-	1	6
At December 31	89	72	109	**271**
Accumulated amortization/impairment				
At January 1	-	19	63	82
Amortization	-	5	3	8
Impairment through income statement	-	17	11	28
Other movements	-	-1	1	-
At December 31	**-**	**40**	**78**	**118**
Net book value at December 31	89	32	31	152

2018	Goodwill	Software	Other intangible assets	Total
Cost				
At January 1	15	20	74	109
Acquisitions through business combinations	85	7	33	126
Additions	-	22	-	22
Other movements	-15	-	-	-15
At December 31	85	49	107	**242**
Accumulated amortization/impairment				
At January 1	15	2	57	74
Amortization	-	2	5	8
Impairment through income statement	-	15	-	15
Other movements	-15	-	-	-15
At December 31	**-**	**19**	**63**	**82**
Net book value at December 31	85	30	45	160

With the exception of goodwill, all intangible assets have a finite useful life and are amortized accordingly. Software is generally amortized over an average period of 5 years. At year-end 2019, the remaining average amortization period was 5 years. 'Other intangible assets' mainly consists of customer relationships. None of the intangible assets have titles that are restricted or have been pledged as collateral for liabilities.

In 2019 the VOBA on insurance assets (reported under 'Other intangible assets') was fully impaired due to the LAT deficit of Aegon Nederland (net book value year-end 2018 EUR 12 million).

Goodwill, software and other intangibles recognized during 2018 is the result of the acquisition of the Robidus group on September 10, 2018.

Impairment testing

For the goodwill and other intangible assets impairment test an impairment model is developed. Goodwill is tested for impairment annually, considering the higher of the value in use and fair value less costs to sell. The cash-generating unit (CGU) that was identified to allocate the goodwill is Robijn Participaties (Robidus Group).

The goodwill impairment test was performed based on the third quarter 2019 financial information. For our impairment testing of intangible assets we have tested whether the carrying value of the Robidus Group is below its recoverable value. The carrying value of EUR 110 milllion is the net book value of Robidus based on the actual reporting of Robidus per the reporting date. The recoverable value amount of EUR 161 million is determined by discounting the expected cash flows for a five year period based on our MTP[5] Budget, a pre-tax discount rate of 8.2%, a post-tax discount rate of 8.1%, and terminal growth rate at 2% (rates unchanged to 2018). The discount rate is determined by using the WACC rate consistent with our Economic Framework methodology. This test did not give indications for an impairment of goodwill. The goodwill arises mainly from new customers, future software platform developments, synergies, and assembled workforce.

15. Equity

	2019	2018
Share capital	24	24
Share premium	1.817	1.742
Revaluation reserves	811	1.381
Retained earnings	4.123	4.125
Shareholders'equity	**6.775**	**7.272**
Non-controlling interests	15	15
Group equity at December 31	**6.790**	**7.287**

There are restrictions on the distribution to shareholders. Share capital, the revaluation reserves and other legal reserves together form the Legal reserves which are restricted from distribution to shareholders. A revaluation reserve is formed for unrealised positive revaluations for subsidiaries, joint ventures, real estate investments, AFS investments, and for positive unrealised revaluation of investments which are illiquid or do not have a frequent market listing. Refer to note 8.2 'Statement of changes in equity' in the 'Statutory financial statements' of Aegon Nederland for more information.

15.1. Share capital

The authorized share capital is EUR 50 million, divided into 100,000 common shares of EUR 500 nominal value each, of which 47,194 shares have been issued and fully paid up. There have been no changes since the previous financial year. Aegon Nederland did not pay dividend to Aegon Europe Holding B.V. in 2019 (2018: EUR 200 million dividend was paid). In February 2020 EUR 100 million dividend was paid to Aegon Europe Holding B.V.

Under Dutch law the amount available for distribution as dividend to the shareholder can be calculated as total equity, deducted by the amount of the outstanding share capital (both the paid-in and the not paid-in amount on the share capital) and the amount equal to the legal and statutory reserves.

Furthermore, the Dutch insurance subsidiaries of Aegon Nederland may terminate proposed distributions of dividend where there is non-compliance with the solvency capital requirement or the distribution of dividend would lead to non-compliance with the solvency capital requirement. In such circumstances, a distribution of dividend may only take place if (i) DNB has exceptionally waived the cancellation of proposed dividend, (ii) the distribution would not lead to a further deterioration of the solvency position of the insurance subsidiary and (iii) the minimum capital requirement is still complied with after completion of the distribution.

[5] Medium Term Planning

In addition, Aegon Nederland's subsidiary Aegon Bank is not allowed to pay dividend to its shareholder if a distribution would lead to a deterioration of the capital position of Aegon Bank, such that the capital requirements, as prescribed in article 3:62b of the Wft would no longer be complied with. However, notwithstanding article 3:62b of the Wft, Aegon Bank may distribute dividend, subject to the prior notification to the Dutch Central Bank, up to the amount of the Maximum Distributable Amount (MDA), as referred to in article 141(4) of the Capital Requirements Regulation (CRR).

15.2. Share premium

	2019	2018
At January 1	1.742	1.645
Capital contributions	75	97
At December 31	**1.817**	**1.742**

In 2019 Aegon Europe Holding B.V. increased the equity of Aegon Nederland by means of a capital contribution of EUR 75 million as a share premium on shares already issued. This capital contribution was done in cash in order for Aegon Nederland to recapitalize Aegon Bank with the same amount.

In 2018 Aegon Europe Holding B.V. increased the equity of Aegon Nederland by means of a capital contribution of EUR 97 million as a share premium on shares already issued. This capital contribution was done in cash in order for Aegon Nederland to acquire the shares of Robijn Participaties ('Robidus group').

15.3. Revaluation reserves

	2019	2018
At January 1	1.381	1.244
Gross revaluation	-502	124
Net (gains) / losses transferred to income statement	-239	-49
Tax effect	170	58
Other movements	-	3
At December 31	**811**	**1.381**

There are restrictions on the distribution to shareholders of the revaluation reserve on real estate and revaluations relating to financial instruments that are not actively traded / quoted.

	2019	2018
Shares	14	17
Debt securities	3.358	2.615
Real estate held for own use	3	1
Investments in associates	12	14
Total AFS investments	**3.387**	**2.646**
Shadow accounting	-2.576	-1.266
At December 31	**811**	**1.381**

Refer to note 16.1 'Life insurance' for more information on the LAT deficit and shadow accounting.

15.4. Non-controlling interests

The non-controlling interests relates to the other equity instruments ("participations") issued by subsidiary Aegon Bank and the minority stake held by Robidus management in Salus Holding B.V.

As at December 31, 2019, Aegon Bank has issued 1.900 participations with a corresponding value of EUR 10 million (2018: 1.900 participations with a corresponding value of EUR 10 million). Based on the specific characteristics the participations qualify as tier 1 capital under the applicable banking regulations.

16. Insurance contracts

	2019	2018
Life insurance	39.554	33.848
Non-life insurance		
- Unearned premiums and unexpired risks	56	62
- Outstanding claims	624	583
- Incurred but not reported claims	321	351
	1.001	996
Total insurance contracts at December 31	**40.554**	**34.844**

16.1. Life insurance

Movements during the year:	2019	2018
At January 1	33.848	33.386
Gross premiums	901	874
Unwind of discount / interest credited	919	900
Insurance liabilities released	-1.870	-1.808
Changes in valuation of expected future benefits	4.645	496
Portfolio transfers and acquisitions	-8	-11
Expense loadings released	-88	-86
Net exchange differences	1	-2
Movement unamortized interest rate contracts	609	76
Other	597	23
At December 31	**39.554**	**33.848**

Line item ‘other’ mainly consists of pension contracts which upon renewal were transferred from ‘Insurance contracts for account of policyholders’ to ‘Insurance contracts’.

The life insurance contract liabilities increased by EUR 5,706 million (2018: increase of EUR 462 million). The change in valuation of expected future benefits mainly relates to an increased value of guarantees due to decreased interest rates and the adjustment of the LAT deficit.

The LAT deficit in the insurance liability at year-end 2019 amounts to EUR 5,049 million (2018: EUR 1,737 million). Aegon Nederland applies shadow accounting and because of this EUR 3,462 million (EUR 2,576 million after tax; 2018: EUR 1,266 million) was booked from the revaluation reserves to the insurance liabilities. The remaining deficit of EUR 1,587 was recorded in the income statement in the account ‘Policyholder claims and benefits’.

Due to the deficiency in the liability adequacy test in 2019, the insurance liabilities as per the end of 2019, as well as 2018, are de facto measured at accounting principles used in the liability adequacy test.

<u>Deferred interest rebates</u>

Movement unamortized interest rate contracts	2019	2018
At January 1	1.585	1.509
Rebates or future interest compensation granted	433	169
Amortization through income statement	-134	-93
Other	310	-
At December 31	**2.194**	**1.585**

Line item ‘other’ mainly consists of pension contracts which upon renewal were transferred from ‘Insurance contracts for account of policyholders’ to ‘Insurance contracts’.

The deferred interest contracts form part of the insurance liabilities of Aegon Nederland. As a result of the low interest rate environment, policyholders paid a surplus on the premium where previously a premium discount was given.

16.2. Non-life insurance

	2019	2018
Accident and health insurance	886	860
Property and casualty	115	136
Total	**1.001**	**996**

Movements during the year:	2019	2018
At January 1	996	993
Gross premiums - existing and new business	317	309
Changes in unearned premiums	-322	-309
Changes in incurred but not reported claims	-32	3
Unwind of discount / interest credited	9	7
Incurred related to current year	174	195
Incurred related to prior years	63	1
Release for claims settled current year	-103	-106
Release for claims settled prior years	-102	-98
At December 31	**1.001**	**996**

Run off result	2019	2018
Accident and health insurance	28	76
Property and casualty	11	13
	39	**89**

In 2018 the run off results on the Accident and health insurance were significantly higher than in 2019, as a result of better claims management for the WIA products, especially for the own risk carriers, and for AOV products, due to data improvement following migration to the new administration system.

Gross (before reinsurance) claim history in EUR million

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Total
Year-end financial year	277	317	296	299	309	300	311	312	294	295	
After 1 year	-	283	275	275	322	331	344	332	311	312	
After 2 years	-	-	255	249	295	323	318	312	293	291	
After 3 years	-	-	-	240	275	309	307	303	280	263	
After 4 years	-	-	-	-	270	289	285	274	278	279	
After 5 years	-	-	-	-	-	289	279	259	253	270	
After 6 years	-	-	-	-	-	-	275	256	247	277	
After 7 years	-	-	-	-	-	-	-	262	240	275	
After 8 years	-	-	-	-	-	-	-	-	234	263	
After 9 years	-	-	-	-	-	-	-	-	-	255	
Estimated cumulative claims	**277**	**283**	**255**	**240**	**270**	**289**	**275**	**262**	**234**	**255**	
Cumulative payments	-103	-139	-142	-144	-197	-218	-222	-218	-204	-231	
	174	**144**	**113**	**96**	**74**	**71**	**53**	**44**	**30**	**24**	**821**
Outstanding claims prior year (<2010)											123
Outstanding claims in financial statements (including IBNR)											**944**

Net (after reinsurance) claims history in EUR million

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Total
Year-end financial year	265	308	296	296	309	298	304	307	294	295	
After 1 year	-	273	274	271	322	331	337	328	309	312	
After 2 years	-	-	254	246	295	322	313	309	291	289	
After 3 years	-	-	-	236	274	308	304	301	279	262	
After 4 years	-	-	-	-	269	286	282	270	276	277	
After 5 years	-	-	-	-	-	286	276	257	252	270	
After 6 years	-	-	-	-	-	-	272	255	247	276	
After 7 years	-	-	-	-	-	-	-	261	240	272	
After 8 years	-	-	-	-	-	-	-	-	234	262	
After 9 years	-	-	-	-	-	-	-	-	-	254	
Estimated cumulative claims	**265**	**273**	**254**	**236**	**269**	**286**	**272**	**261**	**234**	**254**	
Cumulative payments	-98	-139	-142	-141	-196	-217	-219	-217	-206	-229	
	167	**134**	**112**	**95**	**73**	**69**	**53**	**44**	**28**	**25**	**801**
Outstanding claims prior year (<2010)											121
Outstanding claims in financial statements (including IBNR)											**922**

17. Insurance contracts for account of policyholders

Movements during the year:	2019	2018
At January 1	23.855	25.587
Gross premiums	567	599
Unwind of discount / interest credited	1.924	-67
Change in unit linked account value	707	-277
Insurance liabilities released	-1.561	-1.602
Changes in valuation of expected future benefits	866	-239
Portfolio transfers and acquisitions	-10	-9
Expense loadings released	-110	-111
Other	-909	-25
At December 31	**25.328**	**23.855**

Line item 'other' mainly consists of pension contracts which upon renewal were transferred from 'Insurance contracts for account of policyholders' to 'Insurance contracts'.

18. Guarantees

For financial reporting purposes Aegon Nederland distinguishes between two types of minimum guarantees:

1. Financial guarantees - These guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (refer to note 18.1 'Financial guarantees');
2. Minimum investment return guarantees - These guarantees are not bifurcated from their host contracts, valued at fair value and presented together with the underlying insurance contracts (refer to note 18.2 'Minimum investment return guarantees).

18.1. Financial guarantees

Individual variable unit-linked products have a minimum benefit guarantee if premiums are invested in certain funds. The sum insured at maturity or upon the death of the beneficiary has a minimum guaranteed return (in the range of 3% to 4%) if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income funds. No guarantees are given for equity investments only.

The following table provides information on the liabilities for financial guarantees for minimum benefits, net of present value of the expected future premiums that are received to cover these guarantees:

	2019	2018
At January 1	1.678	1.547
Changes in valuation of expected future benefits	57	131
At December 31	**1.735**	**1.678**
Account value	8.626	8.175
Net amount at risk	2.002	2.004

Balances are included in the derivatives liabilities, see note 8 'Derivatives' for more information. The net amount at risk represents the difference between the amount payable under the guarantees and the account value at balance sheet date. The account value reflects the actual fund value for the policyholders.

18.2. Minimum investment return guarantees

The traditional life and pension products offered by Aegon Nederland include various products that accumulate a cash value. Premiums are paid by customers at inception or over the term of the contract. The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product. Minimum interest guarantees exist for all generations of traditional accumulation products written. Older generations contain a 4% guarantee; in 1999 the guarantee decreased to 3% and in 2013 the guarantee decreased to 0%.

The traditional group pension contracts offered by Aegon Nederland include large group insurance contracts that have an individually determined asset investment strategy underlying the pension contract. The guarantee given is that the profit sharing is the maximum of 0% and the realized return on an asset portfolio specified in the policy conditions adjusted for technical interest rates ranging from 3% to 4%. If the adjusted return is negative, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses within the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premiums are fixed over this period. These guarantees are valued at fair value and are included as part of insurance liabilities with the underlying host insurance contracts. The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts, net of the present value of the expected future premiums that are received to cover these guarantees.

	2019	2018
At January 1	5.063	4.719
Changes in valuation of expected future benefits	1.358	344
At December 31	**6.422**	**5.063**
Account value	19.985	18.346
Net amount at risk	6.335	4.933

The table represents the guaranteed minimum investment return. Balances are included in the ‘Insurance contracts’ (note 16). Changes in valuation of expected future benefits mainly comprise the effect of guarantees from new contracts, releases related to expired out-of-the-money guarantees and fair value movements during the reporting year. The account value reflects the liability value of the insurance contracts as a whole. The net amount at risk represents the sum of the differences between the guaranteed and actual amount that credited to the policyholders. For individual policies only positive differences are included, for Group pensions contracts carry forwards of negative differences are recognized.

18.3. Fair value measurement of guarantees

The fair values of guarantees are calculated as the present value of future expected guarantee payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Aegon Nederland utilizes different risk management strategies to mitigate the financial impact of the valuation of these guarantees on the results including asset and liability management and derivative hedging strategies to hedge certain aspects of the market risks embedded in these guarantees.

	2019	2018
Effect of guarantees on earnings before tax:	-1.668	-452
Main drivers of this effect:		
- results related to movement in risk free interest rates	-2.339	-278
- results related to movement in equity markets	436	-135
- results related to movement in equity volatilities	-	10
- results related to movement in own credit spread	-146	97
- other	381	-146
Total	**-1.668**	**-452**

The remainder mainly relates to the performance of underlying assets (EUR 180 million) and the result on the guarantee derivatives that are backing the Aegon pension scheme liabilities, which are not part of the hedge (EUR 152 million), which is also mainly driven by interest developments.

	2019	2018
Hedges related to these guarantees contributed to earnings before tax:	2.102	476

19. Savings deposits

	2019	2018
At January 1	10.586	9.568
Deposits	12.494	9.708
Withdrawals	-11.634	-8.765
Interest credited	72	75
At December 31	**11.517**	**10.586**
Current	9.281	8.483
Non-current	2.236	2.103
Total	**11.517**	**10.586**

The savings deposits comprise EUR 893 million of savings related to ‘Bankspaarhypotheken’ (2018: EUR 769 million). The received deposits related to the ‘Bankspaarhypotheken’ are directly invested in a sub participation of the mortgage of the specific client. The sub participation in the mortgages and the related deposits are shown gross in the financial statements as there is no intention to (directly) settle the deposit with the mortgage.

The carrying amounts disclosed reasonably approximate the fair values at year-end. Refer to note 37 ‘Fair value of assets and liabilities’ for information on fair value measurement.

20. Investment contracts

	2019	2018
At January 1	209	219
Withdrawals	-10	-10
At December 31	**199**	**209**

This item relates to the Verzekeringsgroep Metaalindustrie (VGMI) contract and is repaid evenly over 26 years starting from 2012. The fair value at December 31, 2019 is EUR 193 million (2018: EUR 188 million). Refer to note 37 ‘Fair value of assets and liabilities’ for information on fair value measurement.

21. Investment contracts for account of policyholders

This item related to an investment portfolio held for account of the participants of Aegon Cappital. During 2019 the last section of ‘Investments for account of policyholders’ was operationally transferred to TKP Pensioen. Aegon Nederland bears no investment risk for these investments and therefore the investments are no longer consolidated.

22. Borrowings and group borrowings

	2019	2018
Debentures and other loans	5.785	5.400
Group borrowings	3.100	2.183
At December 31	**8.885**	**7.583**
Current	5.425	3.480
Non-current	3.460	4.103
Total	**8.885**	**7.583**

The carrying amounts disclosed reasonably approximate fair value at year-end. Refer to note 37 ‘Fair value of assets and liabilities’ for information on fair value measurement of the ‘Debentures and other loans’.

22.1. Debentures and other long-term loans

	Coupon rate	Coupon rate	Issue/ maturity	FORD	Legal maturity date	2019	2018
EUR 1.367 million 'SAECURE 14' RMBS Note	floating	quarterly	2014 / 19	Jan. 2019	Jan. 2092	-	874
EUR 1.443 million 'SAECURE 15' RMBS Note	floating	quarterly	2014 / 20	Jan. 2020	Jan. 2092	917	1.038
EUR 875 million 'SAECURE 16' RMBS Note	floating	quarterly	2018 / 23	Oct. 2023	Oct. 2091	820	875
EUR 550 million 'SAECURE 18 NHG' RMBS Note	floating	quarterly	2019 / 25	Jul. 2025	Apr. 2092	491	-
EUR 500 million Senior Non-Preferred Notes	fixed (0,625%)	Annually	2019 / 24	-	Jun. 2024	497	-
EUR 750 million Conditional Pass Through Covered Bond	fixed (0,25%)	Annually	2015 / 20	-	Dec. 2020	749	748
EUR 500 million Conditional Pass Through Covered Bond	fixed (0,25%)	Annually	2016 / 23	-	May 2023	498	497
EUR 500 million Conditional Pass Through Covered Bond	fixed (0,75%)	Annually	2017 / 27	-	June 2027	489	488
EUR 500 million Conditional Pass Through Covered Bond	fixed (0,375%)	Annually	2017 / 24	-	Nov. 2024	498	497
Loan facilities warehouse mortgage loans	floating	monthly	- / 2022	-	-	333	181
Loan facilities pre funding mortgage loans	floating	monthly	- / 2020	-	-	484	194
Other	-	-	-	-	-	9	8
At December 31						**5.785**	**5.400**

Residential mortgage backed securities (RMBS)

The net proceeds of the RMBS notes are used to finance the Dutch mortgage portfolio. The expected maturity of the RMBS notes is derived from the FORD which stands for the first optional redemption date. At this date Aegon Nederland has the first right to repurchase the underlying mortgages from the SPE. The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity. All these notes are fully collateralized by mortgage loans which are part of the general account investments of Aegon Nederland. In February 2019 the mortgages from Saecure 14 were repurchased at FORD.

On July 9, 2019, Aegon Nederland closed a transaction under the Dutch SAECURE program to sell Class A mortgage backed securities (RMBS). ‘SAECURE 18 NHG’ consists of EUR 550 million of class A notes with an expected weighted average life of 4.76 years and a coupon of 3 month Euribor plus 40bps.

Covered Bond

In 2015, Aegon Bank entered into a EUR 5 billion Conditional Pass-Through Covered Bond Program. Under this Program, the payment of interest and principal is guaranteed by an Aegon administered structured entity, Aegon Conditional Pass-Through Covered Bond Company B.V. (the Company). In order for the Company to fulfil its guarantee, Aegon Bank legally transfers mortgage loans originated by Aegon affiliates to the Company. The Company is consolidated by Aegon Nederland.

Senior Non Preferred Notes

In 2019 Aegon Bank issued EUR 500 million of Senior Non-Preferred notes (SNP). These SNP notes qualify as MREL (Minimum Required Eligible Liabilities) eligible notes. Based on the MREL regulation the National Resolution Authority imposes a Minimum Requirement for own funds and Eligible Liabilities. If a bank fails and goes into resolution, the MREL acts as a buffer to absorb losses and to provide new capital to the bank. The notes may only be redeemed at the option of the Issuer for tax reasons and upon the occurrence of an MREL Disqualification Event. Such an "MREL Disqualification Event" shall occur if, as a result any amendment to, or change in, any Applicable MREL Regulations, or any change in the application or official interpretation of any Applicable MREL Regulations, in any such case becoming effective on or after the Issue Date of the notes, the notes are or (in the opinion of the Issuer or the Competent Authority) are likely to become fully or partially excluded from the Issuer's MREL Eligible Liabilities.

Loan facilities warehouse and pre-funding mortgage loans
Committed financing takes place in a 'warehouse' structure for which a special purpose entity ('SPE'), Aegon Hypotheken Financiering B.V. ('Aegon Hypotheken Financiering'), has been incorporated. The interest to be paid is derived from Euribor rates with an additional spread.

In 2016 Aegon Hypotheken entered into a loan agreement with a third party for temporarily funding of mortgages. The loan is secured by pipeline mortgage loans provided by Aegon Hypotheken. Aegon Hypotheken has a total of undrawn external committed financing arrangements available of EUR 1,942 million (2018: EUR 1,840 million).

22.2. Group borrowings

	2019	2018
Loan Aegon Derivatives N.V.	2.866	1.880
Loan Aegon N.V.	233	300
Other	-	3
At December 31	**3.100**	**2.183**
Current	3.100	2.183
Non-current	-	-
Total	**3.100**	**2.183**

The loan with Aegon Derivatives is cash collateral paid under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Nederland. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled on a daily basis. The loan with Aegon N.V. is loan facility largely for temporarily funding of the mortgage portfolio. In total, EUR 500 million is available under this facility. The facility has a floating interest and is secured by mortgages.

23. Provisions

Movements in provisions

2019	Restructuring	Legal procedures	Other	Total 2019
At January 1	3	12	28	43
Additions charged to earnings	30	-	3	34
Unused amounts reversed through the income statement	-	-2	-	-2
Used during the year	-9	-	-1	-10
Other movements	-	-	9	9
At December 31	**25**	**10**	**39**	**74**

2018	Restructuring	Legal procedures	Other	Total 2018
At January 1	9	2	28	39
Additions charged to earnings	2	10	1	13
Unused amounts reversed through the income statement	-	-	-	-
Used during the year	-8	-	-1	-9
At December 31	**3**	**12**	**28**	**43**

	2019	2018
Current	17	15
Non-current	56	28
	74	**43**

Restructuring provision relates to the reorganization of Aegon Nederland. An expense fit program is implemented to achieve a lower cost level. This program continued in 2019, main additions in 2019 relate to the integration of Knab and Aegon Bank, the Agile transition, as well as the transfer of the pension administration of Aegon Levensverzekering to TKP Pensioen. The other movements in 2019 relate to a reclassification from 'Other liabilities and accruals'.

24. Defined benefit liabilities

Movements during the year in defined benefit plans

	2019	2018
At January 1	2.967	2.628
Defined benefit expenses	144	124
Remeasurement of defined benefit plans	464	279
Contributions by plan participants	8	11
Benefits paid	-81	-79
Other	-89	4
Retirement benefit plans	**3.413**	**2.967**
Other post-employment benefit plans *	65	65
At December 31	**3.479**	**3.032**

(*)The other post-employment benefit plans mainly relates to the post-retirement medical plan of Aegon Nederland that contributes to the health care coverage of employees and beneficiaries after retirement.

'Other' relates for EUR -/-100 million to the plan amendments (see further in this note).

Amounts recognized in the statement of financial position

The table below shows the movements during the year of the present value of the wholly unfunded obligations.

	2019	2018
At January 1	3.032	2.693
Current year service costs	96	72
Interest expense (based on discount rate)	52	55
Reclassification		
Remeasurement of net defined liability:		
- Actuarial gains and losses from changes in demographic assumptions	-14	3
- Actuarial gains and losses from changes in financial assumptions	480	277
Past service cost	-1	-1
Contributions by plan participants	8	11
Benefits paid	-84	-83
Other	-89	4
At December 31	**3.479**	**3.032**

Defined benefit expenses

Defined benefit expenses are included in note 33 'Commissions and expenses' in the income statement.

	2019	2018
Current year service cost	95	71
Past service cost	-1	-1
Interest expenses	51	54
Retirement benefit plans	**144**	**124**
Other post-employment benefit plans	2	2
Total defined benefit expenses	**146**	**126**

Retirement benefit plans

As all pension obligations are insured at subsidiary Aegon Levensverzekering almost all assets held by Aegon Nederland backing retirement benefits of EUR 2,736 million (2018: EUR 2,568 million) do not meet the definition of plan assets and as such were not deducted in calculating this amount. Instead, these assets are recognized as general account assets. Consequently, the return on these assets does not form part of the calculation of defined benefit expenses.

Aegon Nederland has a number of defined benefit plans and a small number of defined contribution plans. The defined benefit plans are subject to Dutch Pension regulations and governed by the Board of Directors of Aegon Nederland. The Board of Directors has the full power and discretion to administer the plan including developing investment policy and managing assets for the plans (although these assets do not qualify as 'plan assets' as defined by IFRS), deciding questions related to eligibility and benefit amounts, and any disputes that may arise from plan participants and for complying with the plan provisions, and legal requirements related to the plan and its operation. Aegon Nederland runs, in principle, full actuarial and investment risk regarding the defined benefit plans, this includes the risks of low interest rates, low returns and increased longevity. A part of this risk can be attributed to plan participants by lowering indexation or by increasing employee contributions.

Investment strategies are established based on asset and liability studies. The overall goal is to maximize total investment returns to provide sufficient funding for the present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk. These studies use for example return objectives and various investment instruments. Investment restrictions are updated regularly and they result in asset allocation mix and hedges.

The contributions to the retirement benefit plan of Aegon Nederland are paid by both the employees and the employer, with the employer's contribution being variable[6]. The benefits covered are retirement benefits, disability, death and survivor pension and are based on an average wage system. The defined benefit plans were unfunded by EUR 3,413 million at December 31, 2019 (2018: EUR 2,967 million). The defined benefit plans are largely backed by investments, although these assets do not qualify as 'plan assets' as defined by IFRS. The average remaining duration of the defined benefits obligation is 21.9 years (2018: 20.9 years).

Plan amendments

In 2019 Aegon Nederland decided to amend the current defined pension plans for their own employees whereby the existing defined benefit scheme, will continue to exist and will remain insured at Aegon Levensverzekering. However all contributions after January 1, 2020, will be made to a new individual defined contribution pension scheme. The new Aegon Pension Plan will be between Aegon Nederland and Aegon Cappital and comes into effect on January 1, 2020 and applies to all subsequent accruals. The remaining defined benefit scheme is closed to new members and there will not be further accrual of benefits to the existing members, but the benefits already earned are preserved. Entitlements before January 1, 2020 will remain unchanged and the indexation agreements for those accruals will remain in force.

The plan amendment resulted in a release of EUR 101 million as a past service cost as December 31, 2019 which is included in note 31 'Other income'. This release is mainly driven by the effect of no longer taking into account future salary increases under the new defined contribution plan.

[6]Aegon Nederland deducts employee contributions from the total pension expenses.

Actuarial assumptions used to determine benefit obligations at year-end

The principal actuarial assumptions that apply for the year-ended December 31 are as follows:

	31-12-2019	31-12-2018
Demographic actuarial assumptions:		
Mortality	Aegon NL mortality table*	Aegon NL mortality table*
Financial actuarial assumptions:		
Discount rate	0.94%	1.74%
Wage inflation**	curve 2019	curve 2018
Indexation**	59.2% of curve 2019	57.75% of curve 2018

*Based on Dutch Actuarial Society 2019 prospective mortality table with minor methodology adjustments. These tables are regularly assessed against the most recent mortality trends.

** Based on Dutch Consumer Price Index

A change of these assumptions of the retirement benefit plan as indicated in the table below would have the following effects per year-end:

Estimate approximate effects on the defined benefit obligation	2019	2018
Demographic actuarial assumptions:		
Mortality rate: shock + 10%	-100	-80
Mortality rate: shock - 10%	112	90
Financial actuarial assumptions:		
Discount rate: shock + 100 basis points	-645	-534
Discount rate: shock - 100 basis points	893	732
Wage inflation: shock + 100 basis points	1	18
Wage inflation: shock - 100 basis points	-1	-18
Indexation: shock + 25 basis points	194	167
Indexation: shock - 25 basis points	-177	-152

The above sensitivity analysis is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognized within the statement of financial position.

Mortality

The mortality table used is the projected Aegon table which is annually updated for experience results. Changing the mortality rates changes the cash flow expectations. Increasing (decreasing) the mortality rates for one year decreases (increases) the defined benefit obligation. Using the same discount rate, but other expected cash flows determines the quantitative effect.

Discount rate

The discount rate used in determining the defined benefit obligation is based on high quality (AA rated) corporate bonds. Increasing (decreasing) the discount rate decreases (increases) the value of the defined benefit obligation.

Wage inflation rate

The benefits covered under the plans are based on an average wage system. This curve used as inflation rate is the proxy for the Dutch Consumer Price Index in the projections of the defined benefit obligation. Changing the wage inflation rate changes the expected benefits. Increasing (decreasing) the wage inflation rate increases (decreases) the value of the defined benefit obligation. However, as a result of the plan amendment per January 1, 2020, this impact is relatively small in 2019.

Indexation
The benefits covered under the plans are chiefly dependent on price inflation. This curve used as indexation rate is a percentage of the proxy for the Dutch Consumer Price Index in the projections of the defined benefit obligation. The percentage indexation is determined taking into account the price inflation curve and the amount available in the indexation depot. Increasing (decreasing) indexation increases (decreases) the value of the defined benefit obligation.

Changes in actuarial assumptions

Change of discount rate
The discount rate changed from 1.74% to 0.94%. This decrease is mainly caused by market movements. The yield of high quality corporate bonds dropped significantly during the year which pull the curve down. Interest rates at all maturities have decreased over the year, from about 6 basis points at 10 years, 8 basis points at 20 years and 30 years. In addition, the yearly cash flow update lead to a change in discount rate of -/- 1 basis point.

Change of mortality rates
During 2019 the mortality table was adjusted, the Aegon 2019 mortality table. Also the experience adjustments have been updated during 2019. This results in a gain on the defined benefit obligation in 2019.

Change of indexation benefits of active and inactive participants
Last year the expected indexation rate was 57.75% of the price inflation curve. This percentage is estimated based on the indexation depot, since indexation is conditional on the means available from the indexation depot. Following the price inflation curve as per December 31, 2019, the expected indexation rate has been updated based on the expected indexation depot as per December 1, 2019. The resulting indexation rate is 59.2% of the price inflation curve. As a consequence of the update of the indexation rate a gain on the defined benefit obligation arises during 2019.

Estimated future benefit payments

	Retirement benefit plans	Other post-empl. benefit plans	Total
2020	83	4	87
2021	85	4	89
2022	87	4	91
2023	88	4	92
2024	89	4	93
2025-2029	459	13	472

Expected contributions
The contributions to the defined benefit plans for the next annual reporting period are estimated at EUR 6 million, significantly lower than current year’s contributions which is explained by the plan amendment as of January 1, 2020, as disclosed earlier in this section.

25. Deferred tax

	2019	2018
Deferred tax assets	1.639	783
Deferred tax liabilities	1.552	1.019
Net deferred tax liability / (asset) at December 31	**-87**	**236**

Movement in deferred tax

2019	Real estate	Financial assets	Insurance contracts	Defined benefit plan	Other	Total
At January 1	437	562	-783	7	13	236
Charged to income statement	82	226	-346	101	-101	-38
Charged to equity	-	245	-415	-115	-	-285
Other	-	-	-	-	-	-
At December 31	**520**	**1.032**	**-1.544**	**-7**	**-88**	**-87**

2018	Real estate	Financial assets	Insurance contracts	Defined benefit plan	Other	Total
At January 1	457	613	-908	47	4	212
Charged to income statement	-18	22	109	-22	1	91
Charged to equity	-1	-73	16	-18	-	-75
Other	-	-	-	-	9	9
At December 31	**437**	**562**	**-783**	**7**	**13**	**236**

Deferred tax assets and liabilities are netted if there is a legally enforceable right to net current tax assets and liabilities and the deferred tax items relate to the same taxation authority. Deferred tax assets are recognized for temporary differences, carry forward of unused tax losses and carry forward of unused tax credits when, in the opinion of management, it is probable that they can be utilized. All deferred taxes are non-current.

Deferred tax liabilities for prepayments and other taxes payable on the undistributed profits of certain subsidiaries are not recognized. These undistributed profits amounted to EUR 1,759 million, with a potential tax claim of EUR 382 million.

Loss carry forward
At year-end, there were no deferred tax assets for pre-consolidation losses available for carry forward against future taxable profits (2018: nil).

26. Other liabilities and accruals

	2019	2018
Payables due to policyholders	499	346
Payables out of reinsurance	416	89
Investment creditors	255	241
Income tax payable	85	13
Social security and taxes payable	69	67
Current account with group companies	3	29
Cash collateral	76	1
Variable compensation	11	10
Accrued interest	188	156
Lease liabilities	26	-
Other creditors	818	621
At December 31	**2.445**	**1.575**
Current	2.071	1.518
Non-current	374	57
Total	**2.445**	**1.575**

The payables out of reinsurance mainly relates to the longevity reinsurance contract with Canada Life Reinsurance, Aegon Levensverzekering entered into. Refer to note 12 ‘Deferred expenses’ for more information.

With the exception to the measurement of the longevity reinsurance contract liability with Canada Life Reinsurance (EUR 360 million), the carrying amounts disclosed reasonably approximate the fair values at year-end, given the predominantly current nature of the other liabilities. The deemed fair value of the longevity reinsurance contract on basis of our Solvency II framework is the present value of the reinsurance fees which amount to EUR 525 million.

Refer to note 37 ‘Fair value of assets and liabilities’ for information on fair value measurement.

In the cash flow statement the movement in this account in the book year is disclosed the line items ‘Accrued expenses and other liabilities’ and ‘Net change in cash collateral’.

27. Premium income and premiums to reinsurers

	2019		2018	
	Gross	Reinsurance	Gross	Reinsurance
Life	1.759	13	1.626	13
Non-life	358	19	355	14
Total	**2.117**	**32**	**1.981**	**27**

The Life premiums increased in 2019, which is explained by a large buy out deal, indexation and backservice single premiums in 2019. The recurring premium production decreased further, caused by a lower premiums from the DB pension products, due to the low interest rates, as well as the continuous shift to DC products. The Non-life premiums were in line with prior year.

Non-Life premiums split by branch

	2019	2018
Accidents and illness	228	219
Motor vehicles	17	18
Motor vehicles civil liability	23	26
Fire	31	31
Property - other damages	31	31
General liability	13	13
Legal aid	13	13
Relief operations	2	2
Total	**358**	**355**

28. Investment income

	2019	2018
Investment income related to general account	1.776	1.772
Investment income for account of policyholders	455	471
Total	**2.231**	**2.243**

Investment income consists of:

	2019	2018
Interest income out of:		
- Debt securities	578	599
- Loans	1.257	1.226
- Other investments	86	114
Dividend income from shares	239	239
Rental income from real estate	70	64
Total	**2.231**	**2.243**

Interest income accrued on impaired financial assets	2	5
Interest income on financial assets not carried at FVTPL	1.605	1.587

Investment income from financial assets held for general account:

	2019	2018
Available-for-sale	316	331
Loans	1.260	1.229
Fair value through profit or loss	47	37
Real estate	70	64
Derivatives	54	84
Other	30	27
Total	**1.776**	**1.772**

29. Fee and commission income

	2019	2018
Commissions from intermediary activities	62	29
Fee income from asset management	50	73
Administration fee income	125	112
Total	**237**	**214**

30. Results from financial transactions

	2019	2018
Net fair value change general account financial investments FVTPL, other than derivatives	40	69
Realized gains / (losses) on financial investments	246	49
Gains / (losses) on investments in real estate	166	219
Net fair value change of derivatives	2.337	114
Net fair value change financial assets FVTPL for account of policyholder	2.974	-939
Net foreign currency gains / (losses)	59	21
Total	**5.822**	**-468**

Realized gains and losses on financial investments

	2019	2018
Shares (AFS)	13	24
Debt securities and money market investments (AFS)	226	25
Loans	7	-
Total	**246**	**49**

Net fair value change of derivatives comprise:

	2019	2018
Net fair value change economic hedges - no hedge accounting applied	2.397	278
Net fair value change bifurcated embedded derivatives	-79	-150
Ineffective portion hedge transactions - hedge accounting applied	20	-14
Total	**2.337**	**114**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2019	2018
Fair value change on hedging instruments in a fair value hedge	-354	-44
Fair value change on hedged items in fair value hedge	374	31
Ineffectiveness fair value hedge	**20**	**-14**

Net fair value change on financial assets at FVTPL for account of policyholders

	2019	2018
Shares	1.666	-463
Debt securities and money market investments	273	-183
Other	1.036	-293
Total	**2.974**	**-939**

31. Other income

This item mainly consists of the sale of the Slovakian entity Aegon d.s.s. a.s., (a subsidiary of Aegon Levensverzekering) in the beginning of 2019, on which a book gain of EUR 10 million was realized, and the release of EUR 100 million relating to the plan amendment of the defined pension plan for Aegon Nederland employees. Refer to note 24 'Defined benefit liabilities' for more information on the amendment of the defined pension plan.

32. Policyholder claims and benefits

	2019	2018
Claims and benefits paid to policyholders	3.416	3.547
Change in valuation of liabilities for insurance contracts	5.526	-1.257
Total	**8.942**	**2.290**

Policyholders claims and benefits, includes claims and benefits in excess of account value for products for which deposit accounting is applied and the change in valuation of liabilities for insurance and investment contracts. The changes in valuation of liabilities for insurance and investment contracts is the result of fair value changes of the guarantee provision and insurance contracts for account of policyholders as a result of decrease in interest rates, the net fair value change of investments for account of policyholders (refer to note 30 'Results from financial transactions'), as well as the loss recorded as a result of the LAT deficit (refer to note 16.1 'Life insurance' for more information).

The change in valuation of liabilities for insurance and investment contracts is highly sensitive of financial market movements. In 2019 a loss of EUR 1.297 million (2018: loss of EUR 267 million) regarding fair value movements of guarantees was recorded. This change is due to the increase of the guarantee provision, as a result of lower interest rates in 2019.

33. Commissions and expenses

	2019	2018
Commissions	49	55
Employee expenses	490	417
Administration expenses	365	336
Deferred expenses	-2	-10
Amortization of deferred expenses	3	20
Amortization of VOBA	1	5
Total	**906**	**823**

Employee expenses

	2019	2018
Salaries	215	190
Post-employment benefit costs	136	116
Social security charges	31	23
Other personnel costs	106	88
Variable compensation	1	-
Total	**490**	**417**

Employees

The average number of employees is 3,582, including 211 agents (2018: 3,326, including 177 agents), all working in the Netherlands. The expected developments in the total employees depends on the company's strategic choices made.

Variable Compensation Plans

Members of the Board of Directors as well as selected jobholders have been granted Variable compensation, in accordance with the rules applicable to them and their interpretations by relevant authorities. Of these, the Dutch 2015 Act on compensation in the financial sector (Wet beloningsbeleid financiële ondernemingen Wft) and Solvency II are prominent examples. The rules have been adopted in Aegon N.V.'s Global Remuneration Framework and consistently applied within Aegon Nederland. After the performance period, and based on the framework, variable compensation, if any, is partially made available and partly deferred. Variable compensation is paid in both cash and in Aegon N.V. shares. The shares were conditionally granted at the beginning of the year at the volume weighted average price (VWAP) on the Euronext stock exchange in Amsterdam during the period between December 15, preceding a plan year and January 15, of the plan year. The performance indicators apply over a performance period of one year and consist of Aegon N.V. and/or Aegon Nederland targets (both financial and non-financial) set by the Supervisory Board or the remuneration committee and personal/strategic targets. The conditional grant of variable compensation is also dependent on continued employment of the individual employee to whom the rights have been granted. An ex-post assessment is applicable to determine whether allocated (unvested) variable compensation should become unconditional or should be adjusted. In addition, for Members of the Board of Directors, Aegon Nederland's Supervisory Board has the right to reclaim variable compensation that has already been paid out or vested.
The deferred shares of the variable compensation award cliff-vest three years after allocation, while the deferred parts for members of the Board of Directors tranche-vest during a three-year period after allocation. The latter vesting schedule also applied to variable compensation of Identified Staff in the Netherlands up to 2018. Before each vesting moment, the Supervisory Board can decide to adjust an award downwards based on the annual ex-post risk assessment, which takes into account significant and exceptional circumstances which were not (sufficiently) reflected in the initial performance assessment.

In compliance with regulations under Dutch law, no transactions regarding the shares may be exercised in blackout periods.

All share plans are recognized in the financial statements of Aegon Nederland as cash-settled share based payment transactions since all grants are settled by Aegon Nederland in Aegon N.V. shares via the current account with Aegon N.V. Aegon Nederland uses a net settlement option for participants to meet withholding income tax obligations on vested tranches. This means that Aegon will not sell shares on the market, but hold these shares within Aegon and settle directly with the tax authorities in cash rather than in shares.

The liability related to the above mentioned plan (both cash and Aegon N.V. shares) is disclosed in note 26 'Other liabilities and accruals'. The related expenses are disclosed in note 33 'Commission and expenses'.

Aegon Nederland provides for the full provision of the Variable Compensation Plans (both for Aegon N.V. and Aegon Nederland) and recharges the Variable Compensation Plans for employees that work solely for Aegon N.V. to Aegon N.V.

Remuneration Board of Directors
Current and former members of the Board of Directors are regarded as key management personnel. The remuneration for current and former directors charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code is set out below (amounts in euro).

Members of the Board of Directors	2019	2018
Gross salary and social security contributions	2.830.360	2.810.534
Pension premium	337.611	303.019
Other benefits	433.793	419.870
Total	**3.601.765**	**3.533.423**

Variable compensation for members of the Board of Directors
The following table shows the rights granted for active plans.

Variable compensation plan of year:	Conditionally granted shares	Conditionally granted cash	Actual shares granted	Actual cash granted	Transferred in period
2019	54.666	EUR 0.1 mln	*	*	2020-2023
2018	31.820	EUR 0.2 mln	39.844	EUR 0.2 mln	2019-2022
2017	33.040	EUR 0.2 mln	33.273	EUR 0.2 mln	2018-2021
2016	81.450	EUR 0.4 mln	70.042	EUR 0.4 mln	2017-2020
2015	93.785	EUR 0.6 mln	88.776	EUR 0.5 mln	2016-2019

* To be determined in 2020

The following tables give information on the granted shares for the Board of Directors.

Movements during the year	2019	2018
Unvested at January 1	100.004	131.166
Reversal conditionally granted	-31.820	-33.040
Number of shares conditionally granted *	54.666	31.820
Number of shares allocated	39.844	33.273
Number of shares forfeited	-6.255	-
Number of shares vested	-56.054	-63.215
Unvested at December 31	**100.385**	**100.004**

* To be determined in 2020 respectively 2019

Information on share prices used for the grant (in EUR) by plan year

	Fair value of shares at grant date in EUR	Average share price used for grant in EUR
2019	2.741 to 3.737	4.162
2018	4.143 to 5.054	5.848
2017	4.040 to 4.933	4.933
2016	3.990 to 4.898	5.129
2015	5.159 to 6.018	6.106

Unvested shares by plan year	2019	2018
2019	54.666	-
2018	18.903	31.820
2017	12.058	19.963
2016	14.758	29.516
2015	-	18.705
Unvested at December 31	**100.385**	**100.004**

Mortgage loans Board of Directors
On the reporting date, the current members of the Board of Directors had mortgage loans totaling EUR 3,462 thousand from a company associated with Aegon Nederland (2018: EUR 4,058 thousand) at variable interest rates ranging from 2.09% to 2.80% (2018: 2.14% to 2.90%) in line with the terms and conditions available to the employees of Aegon Nederland. No mortgages were provided during the year (2018: EUR 1,738 thousand) and repayments amount to EUR 596 thousand (2018: EUR 664 thousand). No other loans, guarantees or advance payments exist.

Remuneration Supervisory Board
Members and former members of the Supervisory Board are regarded as key management personnel. The remuneration for current and former supervisory board members charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code was EUR 218 thousand (2018: EUR 163 thousand). This remuneration consists entirely of gross pay and the employer's share of social security charges. The members of the Supervisory Board employed by Aegon N.V. did not receive any remuneration for their membership. No payments were made in connection with severance schemes; no remuneration or rights attaching to shares were granted.

Mortgage loans Supervisory Board
On the reporting date, none of the Supervisory Board members had mortgage loans from a company associated with Aegon Nederland and no other balances such as loans, guarantees or advance payments exist.

33.1. Remuneration Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Nederland's independent public auditor during 2019 and audited these financial statements. The fees for services rendered to Aegon Nederland need not be disclosed in this Annual Report, based on article 382a of Book 2 of the Dutch Civil Code. The aggregate fees for services rendered by PricewaterhouseCoopers Accountants N.V. to the whole group of Aegon N.V. are disclosed in the Annual Report of Aegon N.V.

The services can be split into 'Audit assignments' and 'Audit-related assignments'.

Audit assignments

1. Audit of the (consolidated) financial statements of Aegon Nederland;
2. Audit of the financial statements of subsidiaries;
3. Audit of the subsidiaries for group reporting purposes;
4. Audit of the regulatory reports (Wft staten) of Aegon Levensverzekering, Aegon Spaarkas and Aegon Schadeverzekering as required by the Act on the financial supervision ('Wet op het financieel toezicht').

Included in these services are the other procedures required to be performed by the independent auditor to be able to form an opinion on Aegon Nederland's consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review.

Audit-related assignments

1. Assurance assignments other than assignments to audit or review historical financial information;
2. Review procedures performed on specified information or regulatory returns as specifically required by supervisory authorities pursuant to applicable law or regulations;
3. Audit of internal control procedures;
4. Audit of separate financial statements or audit of a specific element, account or item of a financial statement;
5. Assurance assignments relating to cost price models;
6. Specifically agreed services for third parties such as agreed upon assignments.
7. Comfort letters relating to the covered bond program and other agreed-upon procedures for offering circulars, prospectuses, registration statements in connection with securities offerings and product filings.

34. Impairment charges / (reversals)

	2019	2018
DPAC / VOBA	76	-
Loans	71	34
Other	18	16
Net impairment charges / (reversals)	**165**	**49**

The impairment of DPAC and VOBA in 2019 was the result of the LAT deficit in 2019.

35. Interest charges and related fees

	2019	2018
Borrowings	6	17
Short-term liabilities and deposits	132	112
Total	**138**	**129**
Interest charges accrued on financial assets and liabilities not carried at FVTPL	138	129

36. Income tax

	2019	2018
Current tax		
- current year	149	45
- adjustments to prior year	-9	-11
Deferred tax		
- origination / (reversal) of temporary differences	-51	120
- changes in tax rates / bases	22	-42
- adjustment to prior year	-8	11
Income tax for the period (income) / charge	**102**	**124**

Reconciliation between standard and effective corporate income tax:

	2019	2018
Income before tax	452	777
Income tax calculated using weighted average applicable statutory rates	113	194
Difference due to the effects of:		
- non-taxable income	-	-30
- non-tax deductible expenses	1	1
- changes in tax rates / bases	22	-42
- adjustments to prior years	-18	-
- other*	-16	-
Income tax for the period (income) / charge	**102**	**124**

* 'Other': changes in deferred tax assets as a result of recognition, write off of previously not recognized / recognized tax losses, tax credits and deductible temporary differences

The weighted average applicable statutory tax rate for Aegon Nederland in 2019 and 2018 was 25%. In 2020 the applicable statutory tax rate is 25% and in 2021 and onwards will be 21,7%. The changes in the statutory tax rate have been taken into account in the (reversal of) deferred taxes.

	2019	2018
Items that will not be reclassified to profit and loss:		
Changes in revaluation reserve real estate held for own use	-	-1
Remeasurement of defined benefit plans	-115	-18
	-115	**-19**
Items that may be reclassified subsequently to profit and loss:		
Gains / losses on revaluation AFS investments	-111	-47
Gains / losses transferred to the income statement on disposal and impairment AFS investments	-60	-11
	-171	**-58**
Total income tax related to components of other comprehensive income	**-285**	**-76**

37. Fair value of assets and liabilities

The estimated fair values of assets and liabilities of Aegon Nederland correspond with the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Aegon Nederland uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. Fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when Aegon Nederland determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). Therefore, unobservable inputs reflect the own assumptions of Aegon Nederland about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

Aegon Nederland employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized to corroborate those inputs. Further details of the validation processes are set out below.

Valuation of financial assets and liabilities is based on a pricing hierarchy, in order to maintain a controlled process that will systematically promote the use of prices from sources in which Aegon Nederland has the most confidence, where the least amount of manual intervention exists and to embed consistency in the selection of price sources. Depending on asset type the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices and follows with making use of third-party pricing services or brokers.

37.1. Fair value hierarchy

The table below provides an analysis of assets and liabilities recorded at fair value on a recurring basis by level of the fair value hierarchy.

2019	Level I	Level II	Level III	Total
Assets carried at fair value				
AFS investments				
- Shares	-	-	23	23
- Debt securities	15.945	3.463	148	19.556
- Other	-	85	-	85
Real estate held for own use	-	-	108	108
FVTPL investments				
- Shares	84	3.769	1.335	5.189
- Debt securities	1	44	-	45
- Investments for account of policyholders	12.907	9.024	1.259	23.190
- Derivatives	77	8.199	55	8.331
- Investments in real estate	-	-	2.229	2.229
Total assets	**29.014**	**24.584**	**5.157**	**58.755**
Liabilities carried at fair value				
- Derivatives	2	6.177	1.739	7.917
Total liabilities	**2**	**6.177**	**1.739**	**7.917**

2018	Level I	Level II	Level III	Total
Assets carried at fair value				
AFS investments				
- Shares	-	-	29	29
- Debt securities	15.809	3.970	161	19.940
- Other	-	55	-	55
Real estate held for own use	-	-	101	101
FVTPL investments				
- Shares	203	1.640	1.180	3.023
- Debt securities	-	40	-	40
- Investments for account of policyholders	11.271	9.223	1.303	21.796
- Derivatives	7	4.837	33	4.877
- Investments in real estate	-	-	2.150	2.150
Total assets	**27.291**	**19.764**	**4.957**	**52.012**
Liabilities carried at fair value				
- Investment contracts for account of policyholders	-	130	-	130
- Derivatives	71	3.386	1.682	5.139
Total liabilities	**71**	**3.516**	**1.682**	**5.269**

Movements in Level III financial assets and liabilities measured at fair value

2019	As at 1-1-2019	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2019	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	29	-	3	-	-9	-	23	-
- Debt securities	161	-	9	-	-14	-8	148	-
Real estate held for own use	101	-2	9	-	-		108	-2
FVTPL investments								
- Shares	1.180	55	-	364	-264	-	1.335	55
- Investments for account of policyholders	1.303	73	-	439	-556	-	1.259	73
- Derivatives	33	20	-	2	-	-	55	20
- Investments in real estate	2.150	159		179	-259		2.229	159
Total assets	**4.957**	**305**	**20**	**984**	**-1.101**	**-8**	**5.157**	**305**
Liabilities carried at fair value								
- Derivatives	1.682	57	-	-	-	-	1.739	57
Total liabilities	**1.682**	**57**	**-**	**-**	**-**	**-**	**1.739**	**57**

2018	As at 1-1-2018	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2018	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	44	21	-12	3	-27	-	29	21
- Debt securities	184	-	1	15	-39	-	161	-
- Other	9	-	-	-	-9	-	-	-
Real estate held for own use	115	-3	-11	-	-		101	-3
FVTPL investments								
- Shares	604	99	-	538	-61	-	1.180	99
- Investments for account of policyholders	1.332	43	-	544	-617	-	1.303	43
- Derivatives	24	9	-	-	-	-	33	9
- Investments in real estate	1.495	225		469	-39		2.150	225
Total assets	**3.807**	**395**	**-22**	**1.569**	**-792**	**-**	**4.957**	**395**
Liabilities carried at fair value								
- Derivatives	1.550	132	-	-	-	-	1.682	132
Total liabilities	**1.550**	**132**	**-**	**-**	**-**	**-**	**1.682**	**132**

Result income statement: Includes impairments and movements related to fair value hedges. Gains and losses are recorded in the line item Results from financial transactions of the income statement.
Result OCI: Total gains and losses are recorded in line items: Gains/(losses) on revaluation of available-for-sale investments, (Gains)/losses transferred to the income statement on disposal and impairment of available-for-sale investments and Changes in revaluation reserve real estate held for own use of the statement of other comprehensive income.
Result year-end: Relates to the total income in the financial year during which the financial instrument was held as Level III instrument.

Some OTC derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs is determined using best estimate of mortality developments. Aegon determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. The most significant unobservable input for these derivatives is the interest rate due to the long duration of the derivatives. However, the interest rate risk is taken into account in our interest rate hedging strategy. Therefor the net most significant unobservable input is the (projected) mortality development.

Significant transfers between Levels I/II/III

During 2019 and 2018 no significant transfers from level II to level III or vice versa took place.

Significant unobservable assumptions

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level III assets and liabilities.

2019	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	23	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	148	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Shares	1.335	Broker quote	n.a.	n.a.	n.a.
Investments for account of policyholders	1.259	Broker quote	n.a.	n.a.	n.a.
Derivatives	55	Discounted cash flow	Mortality	5%	5%
Investments in real estate	2.229	External appraiser	n.a.	n.a.	n.a.
Real estate for own use	108	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**5.157**				
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives	1.739	Discounted cash flow	Credit spread	0,20%	0,20%
Total liabilities at fair value	**1.739**				

* Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Nederland and are not reasonably available.

2018	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	29	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	161	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Shares	1.180	Broker quote	n.a.	n.a.	n.a.
Debt securities	-	Broker quote	n.a.	n.a.	n.a.
Investments for account of policyholders	1.303	Broker quote	n.a.	n.a.	n.a.
Derivatives	33	Discounted cash flow	Mortality	5%	5%
Investments in real estate	2.150	External appraiser	n.a.	n.a.	n.a.
Real estate for own use	101	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**4.957**				
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives	1.682	Discounted cash flow	Credit spread	0,25%	0,25%
Total liabilities at fair value	**1.682**				

* Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Nederland and are not reasonably available.

Investments for account of policyholders are excluded from the disclosure regarding reasonably possible alternative assumptions in the following tables. Policyholder assets, and their returns, belong to policyholders and do not impact the net income or equity of Aegon Nederland. The effect on total assets is offset by the effect on total liabilities.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of the fair value of Level III instruments to changes in key assumptions, by class of instrument. The effect of an increase of a reasonable possible alternative assumption on the carrying amount is shown in the column ‘positive’ and a decrease in the column ‘negative’.

2019	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Assets carried at fair value					
FVTPL					
Derivatives	55	Mortality	a	-47	74
Liabilities carried at fair value					
Derivatives - Bifurcated embedded derivatives	1.739	Credit spread	b	-49	51

2018	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Assets carried at fair value					
FVTPL					
Derivatives	33	Mortality	a	-35	52
Liabilities carried at fair value					
Derivatives - Bifurcated embedded derivatives	1.682	Credit spread	b	-45	47

The table above presents the impact on a fair value measurement of a change in an unobservable input for financial assets and liabilities. The impact of changes in inputs may not be independent; therefore the descriptions provided below indicate the impact of a change in an input in isolation.

a. Some OTC derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs is determined using best estimate of mortality developments. Aegon determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. Depending on the duration of the longevity swaps either the projected mortality (+/- 5%) development or discount rate (+/- 100 bps) are the most significant unobservable inputs.

b. To determine the fair value of the bifurcated embedded derivatives related to guarantees, a discount rate is used including own credit spread. An increase in the own credit spread results in lower valuation, while a decrease results in a higher valuation of the embedded derivatives. Aegon Nederland increased or decreased the own credit spread by 20 basis points.

Fair value information about assets and liabilities not measured at fair value

The following tables presents the carrying values and estimated fair values of assets and liabilities, excluding assets and liabilities which are carried at fair value on a recurring basis.

For certain financial assets and liabilities disclosed in the table below, the carrying amounts of reasonably approximate the disclosed fair values at year-end. Therefore the unobservable inputs regarding the fair value are listed as not applicable (n.a.). All of the instruments disclosed in the table are held at amortized cost.

<u>Instruments not included in the table</u>
Certain financial assets and liabilities that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include

- cash and cash equivalents,
- short-term receivables and accrued interest receivable,
- short-term liabilities and accrued liabilities
- internal group borrowings and group loans.

2019	At December 31		Level of fair value hierarchy		
	Carrying amount	Estimated fair value	Level I	Level II	Level III
Assets					
Mortgage loans	29.567	33.111	-	-	33.111
Private loans	4.440	5.109	-	-	5.109
Other	227	227	-	227	-
Liabilities					
Savings deposits	11.517	11.892	-	-	11.892
Borrowings	5.785	5.787	-	-	5.787
Investment contracts	199	193	-	-	193

2018	At December 31		Level of fair value hierarchy		
	Carrying amount	Estimated fair value	Level I	Level II	Level III
Assets					
Mortgage loans	28.636	31.686	-	-	31.686
Private loans	4.068	4.452	-	-	4.452
Other	231	231	-	231	-
Liabilities					
Savings deposits	10.586	10.653	-	-	10.653
Borrowings	5.400	5.406	-	-	5.406
Investment contracts	209	188	-	-	188

37.2. Fair value measurement

Aegon Nederland's methods of determining fair value and the valuation techniques are described on the following pages.

37.2.1. Shares

When available, Aegon Nederland uses quoted market prices in active markets to determine the fair value of its investments in shares. For Level III unquoted shares, the net asset value can be considered the best approximation to the fair value. Net asset value is the value of an entity's assets minus the value of its liabilities and may be the same as the book value or the equity value of the entity. Also for unquoted shares, the fair value may be estimated using other methods, such as observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Adjustments for lack of liquidity are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

37.2.2. Real estate funds, private equity funds and hedge funds

The fair values of investments held in non-quoted investment funds are determined by management after taking into consideration information provided by the fund managers. Aegon Nederland reviews the valuations each month and performs analytical procedures and trending analysis to ensure the fair values are appropriate. The net asset value is considered the best valuation method that approximates the fair value of the funds.

37.2.3. Debt securities

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon Nederland uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon Nederland's valuation policy utilizes a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes, the majority of which are non-binding. As part of the pricing process, Aegon Nederland assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. When broker quotes are not available, securities are priced using internal cash flow modelling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

To understand the valuation methodologies used by third-party pricing services Aegon Nederland reviews and monitors the applicable methodology documents of the third-party pricing services. Any changes to their methodologies are noted and reviewed for reasonableness. In addition, Aegon Nederland performs in-depth reviews of prices received from third-party pricing services on a sample basis. The objective for such reviews is to demonstrate that Aegon Nederland can corroborate detailed information such as assumptions, inputs and methodologies used in pricing individual securities against documented pricing methodologies. Only third-party pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third-party pricing services will often determine prices using recently reported trades for identical or similar securities. The third-party pricing service makes adjustments for the elapsed time from the trade date to the balance sheet date to take into account available market information. Lacking recently reported trades, third-party pricing services and brokers will use modelling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate.

Periodically, Aegon Nederland performs an analysis of the inputs obtained from third-party pricing services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. The asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events. Other controls and procedures over pricing received from indices, third-party pricing services, or brokers include validation checks such as exception reports which highlight significant price changes, stale prices or non-priced securities. Additionally Aegon Nederland performs back testing on a sample basis. Back testing involves selecting a sample of securities trades and comparing the prices in those transactions to prices used for financial reporting. Significant variances between the price used for financial reporting and the transaction price are investigated to explain the cause of the difference.

Credit ratings are also an important consideration in the valuation of securities and are included in the internal process for determining the view of Aegon Nederland of the risk associated with each security. However, Aegon Nederland does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining Aegon Nederland's view of the risks associated with each security.

Aegon Nederland's portfolio of private placement securities (held at fair value under the classification of available-for-sale or fair value through profit or loss) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third-party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, Aegon Nederland's asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and a liquidity premium to account for the illiquid nature of these securities. The liquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the liquidity premium for private placement securities to the overall valuation is insignificant.

Aegon Nederland's portfolio of debt securities can be subdivided in Sovereign debt, Residential mortgage-backed securities (RMBS), Commercial mortgage-backed securities (CMBS), Asset backed securities (ABS), and Corporate bonds. Below relevant details in the valuation methodology for these specific types of debt securities are described.

Sovereign debt
When available, Aegon Nederland uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When Aegon Nederland cannot make use of quoted market prices, market prices from indices or quotes from third-party pricing services or brokers are used.

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS)
Valuations of RMBS, CMBS and ABS are monitored and reviewed on a monthly basis. Valuations per asset type are based on a pricing hierarchy which uses a waterfall approach that starts with market prices from indices and follows with making use of third-party pricing services or brokers. The pricing hierarchy is dependent on the possibilities of corroboration of the market prices. If no market prices are available Aegon Nederland uses internal models to determine fair value. Significant inputs included in the internal models are generally determined based on relative value analysis, which incorporate comparisons to instruments with similar collateral and risk profiles. Market standard models may be used to model the specific collateral composition and cash flow structure of each transaction. The most significant unobservable input is liquidity premium which is embedded in the discount rate.

Corporate bonds
Valuations of corporate bonds are monitored and reviewed on a monthly basis. The pricing hierarchy is dependent on the possibility of corroboration of market prices when available. If no market prices are available, valuations are determined by a discounted cash flow methodology using an internally calculated yield. The yield is comprised of a credit spread over a given benchmark. In all cases the benchmark is an observable input. The credit spread contains both observable and unobservable inputs. Aegon Nederland starts by taking an observable credit spread from a similar bond of the given issuer, and then adjusts this spread based on unobservable inputs. These unobservable inputs may include subordination, liquidity and maturity differences.

Corroboration
On a quarterly basis level classifications are assigned to all securities. Those securities that have been priced by non-binding broker quotes are classified level II/III at first instance and are corroborated in order to assign the proper level. Aegon Nederland compares the received quote against all available other evidence. If differences between the price used to measure the security and two additional prices are within a 3% difference range a level II is assigned, otherwise the security is classified as being level III. If quotes were not to be corroborated and did not seem to reflect a fair value, measures are taken to get a more reliable valuation; these securities always classify as level III.

37.2.4. Mortgage loans and private loans

For private loans, fixed interest mortgage loans and other loans originated by Aegon Nederland, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield and maturity characteristics. For fixed interest mortgage loans, the market rate is adjusted for expenses, prepayment rates, lapse assumptions (unobservable inputs), liquidity and credit risk (market observable inputs). An increase in expense spread, prepayment rates and/or prepayment assumptions, would decrease the fair value of the mortgage loan portfolio.

The fair value of floating interest rate mortgage loans and private placements used for disclosure purposes is assumed to be approximated by their carrying amount, adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

37.2.5. Real estate

Valuations of both investments in real estate and real estate held for own use are conducted in full by independent external appraisers at least every three years and reviewed at least once a year by qualified internal appraisers to ensure the value correctly reflects the fair value at the balance sheet date. Appraisals are different for each specific local market, but are based on market guidelines such as International Valuation Standards, Uniform Standards of Professional Appraisal Practice or guidelines issued by the Investment Property Databank. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the value that the property's net earning power will support, the value indicated by recent sales of comparable properties and the current cost of reproducing or replacing the property. Discount rates used in the valuation of real estate reflect the risk embedded in the projected cash flows for the asset being valued. Capitalization rates represent the income rate for a real estate property that reflects the relationship between a single year's net operating income expectancy and the total property price or value. For property held for own use, appraisers consider the present value of the future rental income cash flows that could be achieved had the real estate been let out.

37.2.6. Money market and other short-term investment and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk where appropriate. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

37.2.7. Derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that a typical market participant would consider and are based on observable market data when available. Models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices in active markets. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models or an independent third party. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

Aegon Nederland normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[7] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Nederland or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

Aegon Nederland's valuation of its euro-denominated derivatives positions in the Netherlands is based on the Overnight Index Swap curve.

Some over-the-counter derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best

[7] International Swaps and Derivatives Associations

estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs is determined using best estimate of mortality developments. Aegon Nederland determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. Depending on the duration of the longevity swaps either the projected mortality development or discount rate are the most significant unobservable inputs.

37.2.8. Embedded derivatives in insurance contracts including guarantees

All bifurcated guarantees for minimum benefits in insurance contracts are carried at fair value. These relate mainly to minimum interest guarantees on insurance products.

Since the price of these guarantees is not quoted in any financial market, the fair values of these guarantees are based on discounted cash flows calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined by using stochastic models under a variety of market return scenarios. A variety of factors are considered including own credit spread, expected market rates of return, equity and interest rate volatility, correlations of market returns, discount rates and actuarial assumptions. The most significant unobservable factor is own credit spread. The own credit spread used in the valuations of embedded derivatives in insurance contracts is 0.20% for the year-ended (2018: 0.25%).

Aegon extrapolates yield curves beyond market observable maturities. The discount rates converge linearly in 10 years to an Ultimate Forward Rate of 3,65% from the last liquid point. The uniform last liquid point for all Aegon's major currencies (EUR, USD and GBP) is set at 30 years.

The expected returns are based on risk-free rates. Aegon Nederland added a premium to reflect the credit spread as required. The credit spread is set by using the credit default swap spreads of a reference portfolio of life insurance companies (including Aegon), adjusted to reflect the subordination of senior debt holders at the holding company level to the position of policyholders at the operating company level (who have priority in payments to other creditors).

Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level III of the fair value hierarchy. See also note 18 'Guarantees'.

37.2.9. Embedded derivatives in bank products

Some bifurcated derivatives embedded in bank products are not quoted in an active financial market. Valuation techniques are used to determine the fair values of these derivatives. Given the dynamic and complex nature of the cash flows relating to these derivatives, their fair values are often determined by using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market prices and rates of return, equity and interest rate volatility, credit risk, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free interest rates, such as the EURO Interbank Offered Rate (EURIBOR) yield curve or the current rates on Dutch government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. As required for discounting cash flows, Aegon Nederland applies a credit spread to the risk-free interest rate when computing the guarantee provisions. This own credit spread is derived from the spread used in the market for credit default swaps in a reference portfolio of European life insurers (including Aegon N.V.).

37.2.10. Savings deposits and investment contracts

Savings deposits and investment contracts issued by Aegon Nederland are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements).

Similar to embedded derivatives in insurance contracts, certain investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic or similar techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates, such as the current EURO Interbank Offered Rate (EURIBOR)[8] swap rates and associated forward rates, the Overnight Index Swap (OIS) curve or the current rates on local government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. Correlations of market returns for various underlying indices are based on observed market returns and their inter-relationships over a number of years preceding the valuation date. Current risk-free spot rates are used to determine the present value of expected future cash flows produced in the stochastic projection process.

Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

37.2.11. Other borrowings

Other borrowings are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). For the determination of the fair value of the borrowings, the level hierarchy as described by IFRS is used. The preferred method of obtaining the fair value of the fair value option bonds is the quoted price (Level I). In case markets are less liquid or the quoted prices are not available, an internal model is used, using parameters which are market observable (Level II). Aegon Nederland uses a discounted cash flow method including yield curves such as deposit rates, floating rate and 3-month swap rates. In addition Aegon Nederland includes the own credit spread based on Aegon's credit default swap curve.

37.3. Summary of financial assets and financial liabilities at fair value through profit or loss

The table that follows summarizes the carrying amounts of financial assets and financial liabilities that are classified as at fair value through profit or loss, with appropriate distinction between those financial assets and financial liabilities held for trading and those that, upon initial recognition, were designated as at fair value through profit or loss.

	2019		2018	
	Trading	Designated	Trading	Designated
Investments for general account	-	6.002	-	3.456
Investments for account of policyholders	-	23.190	-	21.796
Derivatives with positive values	8.225	107	4.711	166
Total financial assets at FVTPL	**8.225**	**29.298**	**4.711**	**25.419**

	2019		2018	
	Trading	Designated	Trading	Designated
Investment contracts for account of policyholders	-	-	-	130
Liabilities for guarantees	-	6.422	-	5.063
Derivatives with negative values	5.398	2.519	2.949	2.190
Total financial liabilities at FVTPL	**5.398**	**8.941**	**2.949**	**7.383**

Gains and losses recognized in the income statement on financial assets and financial liabilities classified as at fair value through profit or loss can be summarized as follows:

	2019		2018	
	Trading	Designated	Trading	Designated
Net gains and losses	1.980	3.384	280	-1.014

[8] In a response to the IBOR manipulation scandals, the Financial Stability Board has proposed new standards to develop/reform interest rate benchmarks and using transaction-based input data instead of non-transactional/panel input data. In the EU, this is adopted in the new Benchmark Regulations (BMR) in which is stipulated that by January 2020 EURIBOR and EONIA will very likely no longer be published.

<u>Investments for general account</u>
Aegon Nederland manages certain portfolios on a total return basis which have been designated at fair value through profit or loss. This includes portfolios of investments in limited partnerships and limited liability companies (primarily hedge funds) for which the performance is assessed internally on a total return basis.

Investments for general account backing insurance and investment liabilities that are carried at fair value with changes in the fair value recognized in the income statement, are designated at fair value through profit or loss. Aegon Nederland elected to designate these investments at fair value through profit or loss, as classification of these financial assets as available-for-sale would result in accumulation of unrealized gains and losses in a revaluation reserve within equity whilst changes to the liability would be reflected in net income (accounting mismatch).

<u>Investments for account of policyholders</u>
Investments held for account of policyholders comprise assets that are linked to various insurance and investment contracts for which the financial risks are borne by the customer. Under the accounting policies of Aegon Nederland these insurance and investment liabilities are measured at the fair value of the linked assets with changes in the fair value recognized in the income statement. To avoid an accounting mismatch the linked assets have been designated as at fair value through profit or loss.

In addition, the investments for account of policyholders include with ‘profit assets’, where an insurer manages these assets together with related liabilities on a fair value basis in accordance with a documented policy of asset and liability management. In accordance with Aegon Nederland’s accounting policies, these assets have been designated as at fair value through profit or loss.

<u>Investment contracts for account of policyholders</u>
All investment contracts for account of policyholders that are carried at fair value or at the fair value of the linked assets are included in the table above.

<u>Derivatives</u>
With the exception of derivatives designated as a hedging instrument, all derivatives held for general account and held for account of policyholders are included in the table above. No loans and receivables were designated at fair value through profit or loss. Changes in the fair value of financial liabilities designated at fair value through profit or loss were not attributable to changes in credit spread, with the exception of the life contingent guarantees. There are also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

38. Commitment and contingencies

38.1. Investments contracted

In the normal course of business, Aegon Nederland has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2020. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the statement of financial position. Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. The sale of mortgage loans relates to pre-announced redemptions on mortgage loans.

As part of its strategy to generate higher yield on its investments Aegon Nederland has committed itself, through certain subsidiaries, to invest in real estate, private loans, mortgages loans and receivables and investment funds (included in ‘other’) in future years. Comparative amounts were immaterial for investments with nil value in prior year.

Contracted purchases	2019	2018
Real estate	168	156
Private loans	188	1.065
Mortgage loans	456	2.784
Other	425	953

Contracted sales	2019	2018
Real estate	2	4
Mortgage loans	79	67

38.2. Other commitments and contingencies

Guarantees have been issued for compliance with contractual obligations such as investment mandates of investment funds.

38.3. Off-balance sheet assets

As part of its core activities, Aegon Nederland enters into transactions and maintains relationships with institutional and private customers for a wide range of financial services. As consideration for these services, Aegon Nederland receives fees related to the value of the assets, the investment result or the risk run in connection with the contract.

38.4. Legal and arbitrary proceedings, regulatory proceedings and actions

Unit linked products

In the Netherlands, unit linked products ('beleggingsverzekeringen') have been controversial and the target of litigation since at least 2005. Allegations include excessive cost, unfair terms, inadequate disclosure, and failure to perform as illustrated. Consumer groups have formed to address these issues and initiate mass claims against insurers. Regulators as well as the Dutch Parliament have been involved ever since, with the principal goal of achieving an equitable resolution. Aegon Nederland has made improvements across its product lines, including after settlements reached in 2009 with Stichting Woekerpolis and Stichting Verliespolis. In addition, Aegon Nederland decided to reduce future policy costs for the large majority of its unit-linked portfolio. This decision was expected to decrease income before tax over the remaining duration of the policies. The unit linked products are still involved in ongoing litigation.

In recent years claims regarding unit-linked policies have also been handled by the Klachteninstituut Financiële Dienstverlening ('KIFID') / KIFID is an independent body that offers an alternative forum for customers to file complaints or claims regarding financial services. Its decisions may be appealed to the courts. In 2017 the Appeal Committee of KIFID rendered decisions against other insurers. There are claims pending with KIFID filed by customers over Aegon products that arguably include similar allegations. At this time the decisions of KIFID and courts are far from homogenous. If KIFID were to finally decide unfavorably, there can be no assurances that ultimately the aggregate exposure to Aegon of such adverse decisions would not have a material adverse effect on Aegon's results of operations or financial position if the principles underlying any such decision were to be applied also to Aegon products.

Proceedings in which Aegon Nederland is involved

KoersPlan
In June 2013, the Dutch Supreme Court turned down an appeal from Aegon Spaarkas against a ruling of the Court of Appeal with respect to a specific unit-linked product, “KoersPlan”. As a result, Aegon Spaarkas compensated the approximately 35,000 holders of KoersPlan products who were plaintiffs in the litigation.

In June 2014, Aegon announced that it would voluntarily compensate holders of KoersPlan products who were not plaintiffs in the litigation. Compensation amounted to the difference, if any, between the actual premium charged by Aegon and the premium that would have been charged by Aegon for a comparable risk in a product providing only death benefit coverage over the same period. This product improvement is explicitly supported by the consumer interest group that initiated the court action over the KoersPlan product, Stichting Koersplandewegkwijt. A follow-up and extension of the Regeling Spaarbeleg for the Spaarbeurs and Spaarlift portfolio of Aegon Spaarkas started in 2017 and continued in 2019. Another follow-up improvement was announced in 2019 for the Fund/Safe portfolio.

Unit-linked products
In September 2014, consumer interest group Vereniging Woekerpolis.nl filed a claim against Aegon in court. The claim related to a range of unit-linked products that Aegon sold in the past, including products over which Aegon was involved in litigation in the past, like the KoersPlan product. While the number of products to which the claim may relate was reduced by the court in its interlocutory ruling of October 28, 2016, it still concerns the majority of Aegon’s unit-linked portfolio. The claim challenges a variety of elements of these products, on multiple legal grounds, including allegations made in earlier court cases. In June 2017 (and revised in December 2017), the court issued its verdict which upheld the principle that disclosures must be evaluated according to the standards at the time when the relevant products were placed in-force. Most of the claims of Vereniging Woekerpolis.nl were dismissed under this standard, although the court found that Aegon did not adequately disclose certain charges on a limited set of policies. The court did not give a judgement about the reasonableness of the cost levels and whether the previous compensation arrangements provide sufficient compensation. This court decision has been appealed by both parties.

Aegon expects the claims and litigation on unit-linked policies to continue for the foreseeable future. Developments in similar cases against other Dutch insurers currently before regulators, KIFID and courts may also affect Aegon. These matters will be defended vigorously; however, at this time, due to the nature and the type of claims, it is not practicable for Aegon to quantify a range or maximum liability or the timing of the financial impact, if any. There can be no assurance that such claims may not have a material adverse effect on Aegon’s results of operations or financial position.

Securities leasing products (“aandelenlease”)
Lawsuits have also been brought against providers of securities leasing products. In September 2016 the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon’s competitors. It decided that a financial institution was liable where the broker (‘remisier’) who advised on the sales of this financial institution’s securities leasing products was not properly licensed to provide advice with regard to such products. Individual clients and advocate groups have already claimed or alleged that this ruling also applies to Aegon securities leasing products. In July 2016, consumer interest group Platform Aandelenlease (PAL) filed a class action claim against Aegon Bank regarding Sprintplan. Allegations include among other things, advice by remisiers that lacked proper licenses. In February 2020 the Court of Appeal rejected all claims of PAL. PAL may appeal in cassation against this ruling. Although the last Sprintplan expired more than a decade ago and there is a long history of litigation regarding security leasing products – including two prior class actions regarding Sprintplan –, it cannot be excluded that these proceedings might have a material adverse effect on Aegon’s results of operations or financial position. In addition, Aegon Bank is involved in claims for compensation and the cancellation or nullification of contracts concerning the Vliegwiel product, a variation on securities leasing products. Currently, proceedings are pending before the Dutch courts and Kifid, with numerous cases having been initiated by Leaseproces B.V., a company that represents a large number of claimants.

Stichting Schaderegelingskantoor voor Rechtsbijstandverzekering (SRK)
SRK provides services for member insurers engaged in legal aid insurance. On May 23, 2018 Nationale Nederlanden Schade (NN) terminated its membership of SRK. On September 28, 2018 Aegon Schadeverzekering has subsequently also terminated its membership. SRK, NN and Aegon disagreed on the legal and financial consequences of these terminations. On request of SRK, on October 31, 2018 the Amsterdam Court of Appeals (Enterprise Chamber) appointed a special Supervisory Board Member at SRK with, inter alia,

the task to mediate between the various stakeholders involved in this dispute. This lead to an amicable agreement being concluded on January 4, 2019 between, amongst others, SRK, NN and Aegon with respect to the consequences of aforementioned termination by NN and Aegon.

Co-insurance claim
In May 2019 a claim was filed against Aegon Levensverzekering regarding the conditions of a co-insurance agreement. At this time, Aegon is unable to estimate the range or potential maximum liability.

GDPR
In 2019 a number of GDPR breaches occurred within Aegon Nederland, for further information refer to our disclosures in note 1.10 of the Report of the Board of Directors. In addition, non-compliance matters, mainly relating to the pensions and mortgages business, occurred within Aegon Nederland in 2019. Management has taken appropriate action to remediate the matters noted and to improve processes, procedures and controls where needed.

38.5. Capital commitments

	2019	2018
Share of contingent liabilities incurred in relation to interests in joint ventures	14	49

The contingent liabilities above not shown in the statement of financial position relate to investment obligations entered into by Aegon Nederland (for its share of approximately 50%) for real estate development project of Amvest (in real estate development projects).

In addition, Amvest has unconditional obligations and planned total investments in real estate of EUR 1,216 million at year-end 2019 (2018: EUR 1,997 million). Of this, an amount of EUR 365 million is considered to be an unconditional obligation (2018: EUR 290 million).

38.6. Future lease payments

The future non-cancellable leases relate to office space lease and car lease from third parties. These are specified in the table below.

	2019	2018
Not later than 1 year	2	6
Between 1 and 5 years	6	15
Later than 5 years	1	8
	9	**29**

As of January 1, 2019, IFRS 16 ‘Leases’ became effective. Refer to note 2.1.1 ‘Adoption of new IFRS EU standards and amendments effective 2019’.

39. Transfers of financial assets

Transfers of financial assets occur when Aegon Nederland transfers contractual rights to receive cash flows of financial assets or when Aegon Nederland retains the contractual rights to receive the cash flows of the transferred financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in that arrangement.

<u>Assets accepted</u>
Aegon Nederland’s financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending and reverse repurchase activities. Aegon Nederland retains substantially all risks and rewards of those transferred assets, this includes credit risk, settlement risk, country risk and market risk. The assets are legally transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as Aegon Nederland is obligated to return this amount upon termination of the lending arrangement. The sum of cash and non-cash collateral is typically greater than the

market value of the related securities lend. When transferring non-cash financial assets to another party under securities lending and repurchase activities, the counterparty has the right to sell or re-pledge the full amount.

Securities lending	2019	2018
Carrying amount of transferred financial assets	671	1.138
Fair value of cash collateral received	-76	-1
Fair value of non-cash collateral received	-618	-1.171
Net exposure	**-23**	**-34**
Non-cash collateral that can be sold or repledged in the absence of default	618	1.171
Non-cash collateral that has been sold or transferred	-	-

Reverse repurchase agreements	2019	2018
Cash paid for reverse repurchase agreements	4.640	1.740
Fair value of non-cash collateral received	-4.640	-1.740
Net exposure	**-**	**-**
Non-cash collateral that can be sold or repledged in the absence of default	4.640	1.740
Non-cash collateral that has been sold or transferred	-	-

In addition, Aegon Nederland can receive collateral related to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon Nederland or its counterparty. Transactions requiring Aegon Nederland or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. Refer to the credit risk section in note 4.2.4 'Credit risk' for details on collateral received for derivative transactions. In addition, in order to trade derivatives on the various exchanges, Aegon Nederland posts margin as collateral. These transactions are conducted under terms that are usual and customary to standard borrowing, derivative and securities borrowing activities, as well as requirements determined by exchanges where a bank acts as intermediary.

Assets pledged

Aegon Nederland pledges assets that are on its statement of financial position in securities borrowing transactions, in repurchase transactions and against borrowings. Non-cash financial assets that are borrowed or purchased under agreement to resell are not recognized in the statement of financial position. To the extent that cash collateral is paid, a receivable is recognized for the corresponding amount. If other non-cash financial assets are given as collateral, these are not derecognized. At year-end 2019 and year-end 2018 there were no assets pledged for repurchase agreements

As part of Aegon Nederland's mortgage loan funding program EUR 2.7 billion (2018: EUR 3.2 billion) has been been pledged as security for notes and loans issued and for subsidiary Aegon Bank EUR 2.7 billion has been are pledged for notes related to the Conditional Pass Through Covered Bond program (2018: EUR 2.7 billion). Refer to note 22 'Borrowings and group borrowings' for more information.

40. Offsetting, enforceable master netting arrangements and similar arrangements

The table below provides details relating to the effect or potential effect of netting arrangements, including rights to offset associated with the entity's recognized financial assets and recognized financial liabilities.

Financial assets and liabilities are offset in the statement of financial position when Aegon Nederland has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously.

Aegon Nederland mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities of Aegon Nederland to facilitate

Aegon Nederland's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon Nederland or its counterparty. Transactions requiring Aegon Nederland or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard borrowing, derivative, securities lending and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

Financial assets / liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	Assets		Liabilities	
	2019	2018	2019	2018
Financial instruments in balance sheet				
Gross (=Net) amounts of financial instruments	8.331	4.877	6.178	3.457
Related amounts not set off				
- Financial instruments	6.178	3.457	6.178	3.457
- Cash collateral pledged (excluding surplus collateral)	2.120	1.417	-	-
Net amount at December 31	**33**	**3**	**-**	**-**

41. Group companies

41.1. Subsidiaries

The principal subsidiaries of Aegon Nederland, which are all incorporated in the Netherlands, are as follows:

Name	**Primary business operation**	**% equity interest 2019**	**% equity interest 2018**
Aegon Bank N.V., The Hague	Banking	100%	100%
Aegon Hypotheken B.V., The Hague	Mortgages	100%	100%
Aegon Levensverzekering N.V., The Hague	Insurance	100%	100%
Aegon Schadeverzekering N.V., The Hague	Insurance	100%	100%
Aegon Spaarkas N.V., The Hague	Insurance	100%	100%
Aegon Cappital B.V., Groningen	Life Insurance	100%	100%
Nedasco B.V., Amersfoort	Broker/Dealer	100%	100%
Salus Holding B.V., Zaanstad	Insurance related services	94%	94%
TKP Pensioen B.V., Groningen	Pension Management	100%	100%

Significant changes in group companies during the year:

- As of January 1, 2019 Optas Pensioenen N.V. and Aegon Levensverzekering N.V. have merged.

Aegon Nederland has issued a statement of liability pursuant to Section 403 of Book 2 of the Dutch Civil Code for the following group companies:

- Aegon Administratie B.V.
- Aegon Global Investment Fund B.V.
- Aegon Innovation Investments B.V.
- Aegon Vast Goed III B.V.
- Aegon Vast Goed IV B.V.
- Vastgoedmaatschappij Inpa B.V.
- Amvest Home Free B.V.

The legally required list of subsidiaries and associates required by Sections 379 and 414 of Book 2 of the Dutch Civil Code has been registered with the Trade Register in The Hague.

41.2. Investments in associates and joint ventures

Associates
The principal associates of Aegon Nederland are:
- N.V. Levensverzekeringmaatschappij 'De Hoop', The Hague (33.3%)
- Auxmoney GmbH, Germany (11%)
- Dynamic Credit Group B.V., Amsterdam (25.0%)
- OB Capital Cooperatief U.A., Schiphol (95.0%);

Auxmoney GmbH is a German Fintech company that provides an online platform for consumer loans and that acts as an agent between borrower and loan suppliers. Based on the voting rights for Aegon Nederland's board seat of Auxmoney GmbH and the funding commitments issued by Aegon Nederland, Aegon Nederland has, despite owning less than 20% of the shares, significant influence in Auxmoney GmbH.

OB Capital Cooperatief U.A. is a company involved in investment in litigation finance and is incorporated in the Netherlands with principal activities based in the Netherlands, Switzerland, United Kingdom and Guernsey. Aegon Levensverzekering has a 95% interest in OB Capital Cooperatief U.A.. Even though Aegon Levensverzekering held more than half of the voting rights, Aegon Levensverzekering does not have control over the company because the existing contractual agreements with other shareholders do not provide Aegon Levensverzekering with rights to direct the daily activities of the company.

Joint ventures
The joint ventures of Aegon Nederland are:
- Amvest Vastgoed B.V., Utrecht (50%), property management and real estate
- Amvest Development Fund B.V.. Utrecht (50%), real estate
- Amvest Residential Core Fund I and II, (28.3%) real estate
- Amvest Living & Care Fund, (50%), real estate

Amvest Vastgoed B.V. is the fund manager of the funds. The other major participant in the joint venture, Stichting Pensioenfonds Zorg en Welzijn in Zeist, has equal interests and voting power in the entities mentioned above.

41.3. Investments in structured entities

The following structured entities are group companies and have been consolidated. The structures entities relate to the securitization of mortgage loans or consumer credit loans. The contractual agreements with these entities do not include provisions in which Aegon Nederland could be required to provide financial support in certain circumstances. Aegon Nederland has not provided, nor has intentions to provide, financial or other support without having a contractual obligation to do so.
- SAECURE 15 B.V.
- SAECURE 16 B.V.
- SAECURE 17 B.V.
- SAECURE 18 NHG B.V.
- Aegon Hypotheken Financiering B.V.
- Kigoi 2013 B.V.
- Aegon Conditional Pass Through Covered Bond Company B.V.

SAECURE 14 NHG B.V has been called at FORD in 2019 and is liquidated. Refer to note 4.2.5 'Credit risk concentration' for information on unconsolidated structured entities.

On May 23, 2019, Aegon Levensverzekering closed a transaction under the Dutch SAECURE program to issue Class A mortgage backed securities (RMBS). 'SAECURE 17' consists of EUR 2,900 million of class A notes with an expected weighted average life of 4.99 years and a fixed coupon of 0.50%. These notes can be used as collateral for repurchase facilities Aegon Levensverzekering has entered into with third parties, or alternatively sold to third party investors. As all notes have been retained by Aegon Levensverzekering, the notes acquired by Aegon Levensverzekering are eliminated against the notes issued by the SPE in the consolidation process. At year-end 2019 EUR 510 million has been posted as collateral with respect to the longevity reinsurance contract with Canada Life Reinsurance.

Aegon Investment Management in cooperation with Aegon Nederland setup Flexible Mortgage Program B.V., which is a Special Purpose Entity used to pass on mortgage loans originated by Aegon Hypotheken to end investors. The parent company of the SPE is Stichting Flexible Mortgage Program Foundation, which is not related to Aegon. The director of both the SPE and its parent, the foundation, is Intertrust Management BV, which is not part of Aegon Group and is not a related party either. Aegon Hypotheken and Aegon Investment Management act as service providers (agents) for mortgage origination, management and administration of the fund on behalf and for the benefit of the external investors and receive fee income in return. Aegon Nederland has no control over the SPE and therefore does not consolidate the SPE. Aegon Nederland and Aegon Investment Management also do not invest in the SPE or in the notes issued by the SPE.

42. Related party transactions

In the normal course of business, Aegon Nederland enters into various transactions with related parties. The principal ones are described in this section. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Transactions between related parties have taken place on an arm's length basis, and include rendering and receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Aegon Nederland has a current account receivable with Aegon N.V. of EUR 20 million (2018: EUR 15 million receivable). Aegon Nederland has group borrowings and group loans with group companies, see note 22.2 'Group borrowings' and note 11 'Loans and group loans' for further information.

In 2019, Aegon N.V. recharged Aegon Nederland EUR 37 million in overheads and program expenses (2018: EUR 26 million). In turn, Aegon Nederland recharged these expenses to its group companies. Aegon Nederland administers the payroll for employees working for Aegon N.V. in the Netherlands. The total employee benefits recharged were EUR 78 million (2018: EUR 73 million).

Aegon Nederland, without the joint venture Amvest Vastgoed, is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax grouping as if it were an autonomous taxpayer. Aegon Nederland is jointly and severally liable for all tax liabilities of the entire Aegon N.V. tax group. It also uses the tax expertise of Aegon N.V.

Aegon Nederland participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Nederland uses to mitigate interest rate risk are concluded with Aegon Derivatives.

Aegon Nederland did not pay dividend to Aegon Europe Holding B.V. in 2019 (2018: EUR 200 million dividend was paid).

In 2019 Aegon Europe Holding B.V. increased the equity of Aegon Nederland by means of a capital contribution of EUR 75 million as a share premium on shares already issued. This capital contribution was done in cash in order for Aegon Nederland to recapitalize Aegon Bank with the same amount.

In 2018 Aegon Europe Holding B.V. increased the equity of Aegon Nederland by means of a capital contribution of EUR 97 million as a share premium on shares already issued. This capital contribution was done in cash in order for Aegon Nederland to acquire the shares of Robijn Participaties ('Robidus group').

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and securities custody through Aegon Custody B.V.. Costs are recharged on normal commercial terms. The recharge was EUR 43 million (2018: EUR 43 million).

In December 2019, Aegon Levensverzekering derecognized an intercompany longevity reinsurance contract with Blue Square Re (the Reinsurer). The contract reinsured a specified portfolio of insurance contracts against possible future mortality improvements. The size of the underlying portfolio was EUR 822 million for which the Reinsurer paid benefits as long as the participants live and receive fixed payments from Aegon Levensverzekering. Due to the termination of this reinsurance contract by the Reinsurer, Aegon Levensverzekering has paid a settlement price of EUR 31 million (after netting with termination discount). The unwinding of the deferred cost of reinsurance and the net reinsurance liability resulted in a net termination loss of EUR 16 million, which has been reported under 'Income from reinsurance ceded' in the consolidated income statement.

During 2019, Aegon Hypotheken originated mortgage loans for account of the Dutch Mortgage Fund/Dutch Mortgage Fund 2 and other funds, managed by Aegon Investment Management B.V., for in total EUR 4.3 billion (2018: EUR 4.7 billion).

Capital contributions and accquisitions
The following table presents the capital contributions received by group companies of Aegon Nederland, as well as acquisitions in group companies done by Aegon Nederland.

	2019	2018
Aegon Bank N.V.	75	50
Aegon Schadeverzekering N.V.	25	-
Salus Holding B.V. (acquisition of Robidus Groep)	-	97
Aegon Cappital B.V.	7	15
Aegon Innovation Investments B.V.	39	-
	146	**162**

Dividends received
The following table presents the dividends received from group companies by Aegon Nederland.

	2019	2018
Aegon Global Investment Fund B.V.	-	195
Aegon Hypotheken B.V.	4	39
Aegon Levensverzekering N.V.	-	140
Aegon Schadeverzekering N.V.	-	22
Aegon Spaarkas N.V.	31	4
TKP Pensioen B.V.	6	6
Van Nierop Assuradeuren N.V.	-	19
	41	**424**

43. Events after the reporting period

Since January 2020, the Coronavirus disease (COVID-19) outbreak is causing significant disruption to society, impacting Aegon Nederland, its employees, suppliers and customers.

Financial markets have been severely impacted by significant decreases in interest rates, equity markets and commodity prices. Governments and central banks worldwide are responding to this crisis with aid packages and further quantitative easing. At the date of this report the depth and length of this crisis is unknown.

Aegon Nederland is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its impact on Aegon Nederland. The most significant risks Aegon Nederland faces are related to financial markets (particularly credit, equity and interest rates), and underwriting risks (particularly related to mortality, morbidity and policyholder behavior). Developments in interest rates as a result of the COVID-19 crisis could take place. Part of the instruments used to manage interest risk are interest rate derivatives. When interest rates increase Aegon Nederland will be required to post collateral with counterparties. Aegon Nederland is continuously monitoring the interest rate developments and the related liquidity position, taking necessary management actions to prepare for such an event Aegon Nederland closely matches the duration of the investments held in relation to the insurance obligations. To manage this potential liquidity need, Aegon holds a large proportion of the investments in liquid instruments which can be quickly converted into cash. It was observed that commercial paper investments managed by the treasury department were less liquid in the market end of March. As a result Aegon Nederland decided to manage to higher overnight cash buffers than in normal circumstances and increase this to EUR 3 billion. This provides a buffer for sudden liquidity needs through interest rate movements, next the money market portfolio, liquid investment portfolio and liquidity lines. To facilitate this, firstly financial instruments that matured were no longer reinvested and secondly Aegon Nederland has entered into several repurchase agreements to generate immediate liquidity. Meanwhile, the liquidity of the commercial paper market is monitored.

The notes to Aegon Nederland's financial statements include elaborate descriptions and related financial market sensitivities. Aegon Nederland continues to monitor claim activity, including the developments with respect to mortality, morbidity and policyholder behavior. At the date of this report it is too early to tell what the impact of the COVID-19 crisis will be on Aegon Nederland's underwriting results and Aegon Nederland's long term underwriting and economic assumptions.

Because of the far-reaching measures governments around the world are taking to control the impact of this pandemic we expect the sale of new business to be impacted by these measures. At the date of this report it is too early to tell what the impact of these measures will be on our sales. Lower interest rates are also likely to impact the profitability of our new business depending on the market response. It is currently not possible to estimate the impact on the business of Aegon Nederland.

Aegon Nederland has invoked its business continuity plans to help ensure the safety and well-being of its staff, as well as its capability to support its customers and maintain its business operations.

Although, as described above, the uncertainties associated with the COVID-19 outbreak are high and it is not currently possible to estimate future effects, we believe that based on current insights, no material uncertainty relating to going concern exist and therefore the going concern assumption used in preparing the financial statements is appropriate.

In February 2020 EUR 100 million dividend was paid to Aegon Europe Holding B.V.

Except for the event disclosed before, there are no other post reporting date events and expectations that have not already been taken into account in the directors' report or financial statements.

44. Approval of the consolidated financial statements

The consolidated financial statements of Aegon Nederland for the year ended 31 December 2019 were approved by the Board of Directors and by the Supervisory Board on April 8, 2020.

The consolidated financial statements will be put for adoption to the General Meeting of Shareholders. The shareholders meeting may decide not to adopt the Consolidated financial statements, but may not amend these during the meeting.

The Supervisory Board have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Supervisory Board will authorize the Chairman to sign the annual accounts on their behalf. The Supervisory Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Supervisory Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Supervisory Board Members are not present as covered by article 2:101 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Supervisory Board,

D. Jansen Heijtmajer (chair)	
G.J.M. Vrancken	
M.J.E. Hoek	
G.T. Kepecs	
D.F.R. Jacobovits de Szeged	

The Board of Directors have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Board will authorize the Chairman to sign the annual accounts on their behalf. The Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Board Members are not present as covered by article 2:101 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Board of Directors,

M.J. Edixhoven (chair)	
B. Magid	
W.A. Hekstra	
A. Schlichting	
W. Horstmann	

Financial statements 2019 of Aegon Nederland N.V.

Report of the Board of Directors

See page 4 of the annual report for the Report of the Board of Directors.

Statement of financial position

(before profit appropriation)

Amounts in EUR million	Note	31-12-2019	31-12-2018
Non-current assets			
Immaterial fixed assets			
Intangible assets		15	23
Financial fixed assets			
Shares in group companies	3	10.116	10.486
Loans and group loans	4	676	700
Investments	5	2.579	2.503
		13.371	**13.689**
Current assets			
Receivables			
Other assets and receivables	6	1.201	794
Cash and cash equivalents			
Cash and cash equivalents	7	90	38
Total assets		**14.677**	**14.544**
Equity	8		
- Share capital		24	24
- Share premium		1.817	1.742
- Revaluation reserves		1.723	1.381
- Remeasurement of defined benefit plans		-1.350	-999
- Other legal reserves		32	23
- Retained earnings		4.180	4.447
- Net income / (loss)		349	654
Total equity		**6.775**	**7.272**
Provisions			
Provisions		44	22
Deferred tax liabilities	9	124	120
		168	**142**
Non-current liabilities			
Borrowings and group borrowings	10	3.570	3.585
Defined benefit liabilities	11	3.479	3.032
		7.049	**6.617**
Current liabilities			
Other liabilities and accruals	12	685	513
Total liabilities		**7.902**	**7.272**
Total equity and liabilities		**14.677**	**14.544**

Income statement

(for the year ended December 31, 2019)

Amounts in EUR million	2019	2018
Net income / (loss) group companies	177	563
Other income / (loss) after tax	172	91
Net income / (loss)	**349**	**654**

Notes to the financial statements

1. General information

For general information on Aegon Nederland we refer to note 1 ‘General information’ of the consolidated financial statements.

2. Summary of significant accounting policies

2.1. Basis of preparation

The company’s financial statements of Aegon Nederland have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. In accordance with article 362.8, Book 2, of the Dutch Civil Code, the Company’s financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the consolidated financial statements of Aegon Nederland. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.

A reference is made to Note 2 ‘Summary of significant accounting policies’ of the consolidated financial statements for the description of the accounting policies applied. The critical accounting estimates are set out in note 3 ‘Critical accounting estimates and judgment in applying accounting policies’ of the consolidated financial statements. These also apply to the separate financial statements unless stated otherwise.

With regard to the income statement of Aegon Nederland, article 402, Book 2 of the Dutch Civil Code has been applied, allowing a condensed format.

2.2. Group companies

The group companies are stated at their net asset value, determined on the basis of IFRS as applied in the consolidated financial statements of the Group. For details on the accounting policies applied for the group companies refer to the consolidated financial statements.

2.3. Equity

Revaluation reserves include unrealized gains and losses on available-for-sales assets and the positive changes in value that have been recognized in net income/(loss) relating to investments (including real estate) and which do not have a frequent market listing. In addition to the notes in the consolidated financial statements it is reported that revaluation reserves include legal reserves in respect of group companies. Legal reserves in respect of group companies include net increases in net asset value of subsidiaries and associates since their first inclusion, less any amounts that can be distributed without legal restrictions.

3. Shares in group companies

	2019	2018
At January 1	10.486	10.085
Capital contributions and acquisitions	146	162
Net income / (loss) for the financial year	177	563
Dividends received	-41	-424
Revaluations	-653	102
Other	-	-2
At December 31	**10.116**	**10.486**

For a list of names and locations of the most important group companies, refer to note 41 ‘Group companies’ of the consolidated financial statements. Refer to note 42 ‘Related party transactions’ for information on the capital contributions and acquisitions as well as the dividends received. All shares in group companies are deemed non-current.

As of January 1, 2019, Aegon PPI and Aegon Cappital Premiepensioeninstelling have merged into a single entity named Aegon Cappital. As a consequence of the merger on December 31, 2018, between Aegon Levensverzekering and Van Nierop Assuradeuren, both subsidiaries of Aegon Nederland, the latter company ceased to exist on January 1, 2019.

4. Loans and group loans

	2019	2018
At January 1	700	600
Additions	76	100
Repayments	-100	-
At December 31	**676**	**700**
Current	76	100
Non-current	600	600
Total	**676**	**700**

For EUR 600 million this relates to the subordinated loan with Aegon Levensverzekering to Aegon Nederland. This subordinated loan was has an indefinite duration; the term of notice is five year. The interest rate is 6%. The remaining amount for both year-ends relates to an overnight deposit loan with Aegon Levensverzekering which has been settled on the first workday of the next year. The carrying amounts disclosed reasonably approximate fair value at year-end.

5. Investments

	2019	2018
Available for sale debt securities	1.270	1.162
Loans (amortized cost)	713	749
Financial assets at fair value through profit or loss (FVTPL)	98	80
Investments in real estate	478	495
Other available for sale investments	20	17
At December 31	**2.579**	**2.503**
Current	173	151
Non-current	2.406	2.352
Total	**2.579**	**2.503**

Aegon Nederland has insured its pension obligations with Aegon Levensverzekering. The investments represent the investments related to the defined benefit plan of Aegon Nederland held in the separated accounts of Aegon Levensverzekering. Refer to note 24 'Defined benefit liabilities' of the consolidated financial statements for more information on the defined benefit plan of Aegon Nederland.

2019	Debt securities	Mortgage loans	Private loans	Financial assets FVPL	Investments in real estate	Other fin. assets	Total 2019
At January 1	1.162	599	150	80	495	17	2.503
Acquisitions	48	19	-	17	53	2	139
Disposal	-49	-55	-	-4	-102	-	-210
Unrealized gains/losses through equity	110	-	-	-	-	-	110
Amortizations through income statement	-2	-	-	-	-	-	-2
Realized gains and losses through income statement	1	-	-	5	32	1	39
At December 31	**1.270**	**563**	**150**	**98**	**478**	**20**	**2.579**
Fair value	1.270	651	246	98	478	20	2.763

2018	Debt securities	Mortgage loans	Private loans	Financial assets FVPL	Investments in real estate	Other fin. assets	Total 2018
At January 1	1.127	559	150	43	350	13	2.242
Acquisitions	124	89	-	33	100	4	350
Disposal	-116	-49	-	-1	-10	-	-176
Unrealized gains/losses through equity	29	-	-	-	-	-	29
Amortizations through income statement	-2	-	-	-	-	-	-2
Realized gains and losses through income statement	-	-	-	5	55	-	60
At December 31	**1.162**	**599**	**150**	**80**	**495**	**17**	**2.503**
Fair value	1.162	671	218	80	495	17	2.643

6. Other assets and receivables

	2019	2018
Equipment	38	40
Receivables	137	132
Accrued income	27	29
Receivables from group companies	431	198
Other	568	395
At December 31	**1.201**	**794**
Current	591	377
Non-current	610	417
Total	**1.201**	**794**

The category 'Other' represents the value of the contract with Aegon Levensverzekering for the pension plan, that exceeds the value of the investments (as disclosed in note 5 'Investments') and the cash deposits (as included in note 7 'Cash and cash equivalents') attributed to the contract. The carrying amounts disclosed reasonably approximate fair value at year-end. Refer to note 16 'Related party transactions' for terms and conditions with respect to the 'Receivables from group companies'.

7. Cash and cash equivalents

The cash items include an amount of EUR 81 million (2018: EUR 34 million) of cash held in the segregated accounts at Aegon Levensverzekering that is related to the pension plan of Aegon Nederland. The remaining cash items are not subject to restrictions.

8. Equity

	2019	2018
Share capital	24	24
Share premium	1.817	1.742
Revaluation reserves	1.723	1.381
Remeasurement of defined benefit plans	-1.350	-999
Other legal reserves	32	23
Retained earnings	4.180	4.447
Net income / (loss)	349	654
At December 31	**6.775**	**7.272**

8.1. Share capital

The authorized share capital is EUR 50 million, divided into 100,000 common shares of EUR 500 nominal value each, of which 47,194 shares have been issued and fully paid up. There have been no changes since the previous financial year.

8.2. Statement of changes in equity

2019	Share capital	Share premium	Revaluation reserves	Remeasurement of defined benefit plans	Other legal reserves	Retained earnings	Net income / (loss)	Shareholders' equity
At January 1	**24**	**1.742**	**1.381**	**-999**	**23**	**4.447**	**654**	**7.272**
Net income prior year retained	-	-	-	-	-	654	-654	-
Net income current year	-	-	-	-	-	-	349	349
Total net income / (loss)	**-**	**-**	**-**	**-**	**-**	**654**	**-305**	**349**
Changes revaluation subsidiaries	-	-	-653	-	-	-	-	**-653**
Adjustment to revaluation reserves	-	-	912	-	-	-912	-	**-**
Changes revaluation reserves	-	-	83	-	-	-	-	**83**
Remeasurement of defined benefit plans	-	-	-	-351	-	-	-	**-351**
Other	-	-	-	-	9	-9	-	**-**
Other comprehensive income / (loss)	**-**	**-**	**342**	**-351**	**9**	**-921**	**-**	**-921**
Capital contribution	-	75	-	-	-	-	-	**75**
Dividend common shares	-	-	-	-	-	-	-	**-**
Equity changes from relation with shareholder	**-**	**75**	**-**	**-**	**-**	**-**	**-**	**75**
At December 31	**24**	**1.817**	**1.723**	**-1.350**	**32**	**4.180**	**349**	**6.775**

Share capital, the revaluation reserves and other legal reserves together form the Legal reserves which are restricted from distribution to shareholders. A revaluation reserve is formed for unrealised positive revaluations for subsidiaries, joint ventures, real estate investments, AFS investments, and for positive unrealised revaluation of investments which are illiquid or do not have a frequent market listing.

The balance of the revaluation reserves has increased with EUR 342 million which is mainly driven by a reclassification from retained earnings to the revaluation reserves of EUR 912 million in order to meet requirements regarding the presentation of legal reserves under the Dutch Civil Code Part 9 Book 2 and partly offset by a decrease of 570 million in the revaluation reserves net of the shadow accounting loss. The reclassification item from retained earnings is mainly related to unrealized gains on real estate investments and unrealized gains on participations in real estate investment funds for which legally a revaluation reserve should be formed.

The revaluation reserves and other legal reserves cannot be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts. The ‘Other legal reserves’ relate to software that has been capitalized (accounted for under ‘Intangibles’) and includes software held within the group companies.
Without the adjustment of EUR 912 million with respect to the presentation of the legal reserves under the Dutch Civil Code Part 9 Book 2, the revaluation reserves equal the amount presented in note 15 ‘Equity’ of the consolidated financial statements.

2018	Share capital	Share premium	Revaluation reserves	Remeasurement of defined benefit plans	Other legal reserves	Retained earnings	Net income / (loss)	Shareholders' equity
At January 1	**24**	**1.645**	**1.244**	**-736**	**-**	**3.947**	**727**	**6.851**
Net income prior year retained	-	-	-	-	-	727	-727	-
Net income current year	-	-	-	-	-	-	654	654
Total net income / (loss)	**-**	**-**	**-**	**-**	**-**	**727**	**-73**	**654**
Changes revaluation subsidiaries	-	-	102	-	-	-	-	**102**
Changes revaluation reserves	-	-	35	-	-	-	-	**35**
Remeasurement of defined benefit plans	-	-	-	-263	-	-	-	**-263**
Other	-	-	-	-	23	-27	-	**-4**
Other comprehensive income / (loss)	**-**	**-**	**137**	**-263**	**23**	**-27**	**-**	**-130**
Capital contribution	-	97	-	-	-	-	-	**97**
Dividend common shares	-	-	-	-	-	-200	-	**-200**
Equity changes from relation with shareholder	**-**	**97**	**-**	**-**	**-**	**-200**	**-**	**-103**
At December 31	**24**	**1.742**	**1.381**	**-999**	**23**	**4.447**	**654**	**7.272**

9. Deferred tax liabilities

2019	Real Estate	Financial assets	Defined benefit plan	Other	Total 2019
At January 1	26	65	7	22	120
Charged to income statement	8	-1	102	-18	91
Charged to equity	-	28	-115	-	-87
At December 31	**34**	**92**	**-6**	**4**	**124**

2018	Real Estate	Financial assets	Defined benefit plan	Other	Total 2018
At January 1	16	72	47	4	139
Charged to income statement	10	-13	-22	18	-7
Charged to equity	-	6	-18	-	-12
At December 31	**26**	**65**	**7**	**22**	**120**

10. Borrowings and group borrowings

	2019	2018
Loan Aegon Levensverzekering N.V. (prev. Optas Pensioenen N.V.)	850	850
Loan Aegon Global Investment Fund B.V.	2.500	2.500
Loan Aegon Spaarkas N.V.	100	100
Loan Aegon Levensverzekering N.V.	120	135
At December 31	**3.570**	**3.585**
current	15	2.515
non-current	3.555	1.070
Total	**3.570**	**3.585**

	2019	2018
At January 1	3.585	3.600
Repayments	-15	-15
At December 31	**3.570**	**3.585**

Aegon Levensverzekering (previously Optas Pensioenen) granted a loan to Aegon Nederland of EUR 850 million in 2007 for an indefinite period at an interest rate of 6% and a term of notice of one month. There have been no repayments in 2019 and 2018.

The fixed term loan with Aegon Global Investment Fund B.V. has been terminated in July 2019 and was replaced by a new loan for 5 years for the same amount, with the coupon of 6 months plus 68.3bps.

Aegon Spaarkas has a fixed term loan with Aegon Nederland for a 10 years period and a coupon of 6 months Euribor plus 148bps.

As of June 2017 Aegon Levensverzekering has a loan of EUR 150 million with Aegon Nederland, consisting of ten loan parts of EUR 15 million with a maturity vary from 1 year to 10 years at fixed interest per loan part. In 2019 EUR 15 million was redeemed (2018: EUR 15 million).

The carrying amounts disclosed reasonably approximate fair value at year-end.

11. Defined benefit liabilities

Refer to note 24 'Defined benefit liabilities' of the consolidated financial statements for information on the defined benefit liabilities.

12. Other liabilities and accruals

	2019	2018
Current account with other group companies	617	393
Other liabilities	68	120
At December 31	**685**	**513**
Current	681	508
Non-current	4	5
Total	**685**	**513**

Refer to note 16 'Related party transactions' for information on the current account with group companies.

13. Remuneration Directors and Supervisory Board

Refer to note 33 'Commissions and expenses' of the consolidated financial statements for information on the remuneration of the Directors and Supervisory Board.

14. Remuneration Independent Auditor

Refer to note 33 'Commissions and expenses' of the consolidated financial statements for information on the remuneration of the independent Auditor.

15. Employees

The average number of employees is 2,381 (2018: 2,357), including 145 agents (2018: 149), all working in the Netherlands.

16. Related party transactions

Aegon Nederland has a current account facility with the subsidiaries of the Aegon Nederland group. At year-end, the amount of EUR 244 million (2018: EUR 195 million) was drawn upon this facility.

Aegon Nederland provides its group companies with staff and facilities at cost. All intra-group transactions are accounted for through the current account with group companies (in the separate financial statements). The total recharge was EUR 296 million (2018: EUR 295 million).

Aegon Nederland has a defined benefit pension plan for its employees which is administered by Aegon Levensverzekering. The premium paid to Aegon Levensverzekering was EUR 50 million (2018: EUR 52 million). Refer to note 24 'Defined benefit liabilities' for more information.

Aegon Nederland has group borrowings and group loans with group companies, see note 10 'Borrowings and group borrowings' and note 4 'Loans and group loans' for further information.

The mortgages held by the Aegon Nederland Group are managed and administered by Aegon Hypotheken. The recharge for these services was EUR 41.4 million (2018: EUR 39.6 million).

Refer to note 42 'Related party transactions' of the consolidated financial statements for more information on the related party transactions.

17. Commitments and contingencies

Future lease payments

Aegon Nederland leases the head office building in The Hague from its subsidiairy Aegon Levensverzekering. From a consolidated perspective this office building is accounted for as 'Property for own use'. From a separate financial statement perspective this classifies as an operational lease. There is no contract end date. The annual rent amounts to EUR 5 million. As of January 1, 2019 IFRS 16 'Leases' is effective. Refer to note 2.1.1 'Adoption of new IFRS-EU accounting standards and amendments effective in 2019' of the consolidated financial statements for more information. Currently, the statutory Board of Aegon Nederland and Aegon Levensverzekering are the same. This means that the contract effectively can be cancelled without taking into account the two-years notice in the lease contract. Therefore, the lease is considered as a short term lease.

Refer to note 38 ‘Commitment and contingencies’ of the consolidated financial statements for more information on other commitment and contingencies.

18. Events after the reporting period

In February 2020 EUR 100 million dividend was paid to Aegon Europe Holding B.V.

Except for the event disclosed before and the Coronavirus disease outbreak (refer to note 43 ‘Events after the reporting period’ of the consolidated financial statements), there are no other post reporting date events and expectations that have not already been taken into account in the directors’ report or financial statements.

19. Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year of EUR 349 million to the retained earnings. This proposal has not yet been incorporated in the financial statements.

The financial statements of Aegon Nederland for the year ended 31 December 2019 were approved by the Board of Directors and by the Supervisory Board on April 8, 2020.

The financial statements will be put for adoption to the General Meeting of Shareholders. The shareholders meeting may decide not to adopt the financial statements, but may not amend these during the meeting.

The Supervisory Board have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Supervisory Board will authorize the Chairman to sign the annual accounts on their behalf. The Supervisory Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Supervisory Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Supervisory Board Members are not present as covered by article 2:101 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Supervisory Board,

D. Jansen Heijtmajer (chair)	
G.J.M. Vrancken	
M.J.E. Hoek	
G.T. Kepecs	
D.F.R. Jacobovits de Szeged	

The Board of Directors have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Board will authorize the Chairman to sign the annual accounts on their behalf. The Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Board Members are not present as covered by article 2:101 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Board of Directors,

M.J. Edixhoven (chair)	
B. Magid	
W.A. Hekstra	
A. Schlichting	
W. Horstmann	

Other information

Statutory provisions regarding profit appropriation

Appropriation of profit will be determined in accordance with article 28 of the Articles of Association of Aegon Nederland N.V. The relevant provisions read as follows:

1. The profit made in a financial year shall be at the disposal of the Annual General Meeting.
2. Distribution of profit shall take place after adoption of the financial statements which show this to be permissible.
3. The Annual General Meeting may resolve to make interim distributions and/or distributions charged to a reserve of the company.
4. Distributions on shares may only take place up to the amount of the distributable equity.
5. A shareholder' claim to a distribution on shares shall lapse after a period of five years.

Independent auditor's report

Independent auditor's report

To: the General Meeting of Shareholders and Supervisory Board of Aegon Nederland N.V.

Report on the financial statements 2019

Our opinion

In our opinion:

- the consolidated financial statements of Aegon Nederland N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at December 31, 2019, and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

- the company financial statements of Aegon Nederland N.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying 2019 financial statements of Aegon Nederland N.V., Den Haag. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:
- the consolidated statement of financial position as at December 31, 2019;
- the following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income and changes in equity as well as the consolidated cash flow statement; and
- the notes comprising significant accounting policies and other explanatory information.

The company financial statements comprise:
- the statement of financial position as at December 31, 2019;
- the income statement for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, the Netherlands
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The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Aegon Nederland N.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

Overview and context

Aegon Nederland N.V. is, through its Dutch subsidiaries, a provider of life insurance, pensions, (savings) mortgages, non-life insurance, banking and asset management and intermediary activities. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

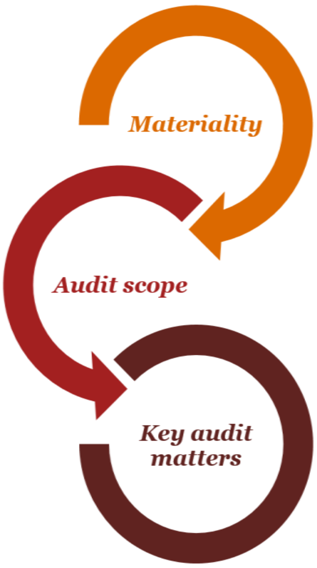
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important judgments, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Note 3 'Critical accounting estimates and judgment in applying accounting policies', the Group describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty.

Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of liabilities arising from insurance contracts and insurance contracts for account of policyholders and the fair value of 'hard to value' financial instruments, we particularly considered these matters as key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we identified uncertainties in policyholder claims and litigation which we also considered to be a key audit matter.

Given the importance of information technology (IT) for the Group and hence for our audit of the financial statements, we have, to the extent relevant to our audit, paid specific attention to the IT dependencies and IT general controls, which comprise the policies and procedures to ensure reliable automated processing of information used for financial reporting purposes, and relevant application controls.

We ensured that the audit teams both at group (consolidation) and at component levels included the appropriate skills and competences that are needed for the audit of a diverse financial institution, such as Aegon Nederland N.V. This included industry expertise in life and non-life insurance, banking and asset management. We, therefore, included specialists and experts in the areas of actuarial, IT, tax, and valuation of certain types of assets (e.g. complex financial instruments and real estate) and liabilities (both liabilities arising from insurance contracts and defined benefit liabilities) in our team.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: € 80 million.

Audit scope

- We conducted audit work in all significant business operations within Aegon Nederland N.V.
- We included all regulated insurance and banking subsidiaries in the scope of our audit, including the investment and real estate operations managed by related parties within the Aegon group.
- Site visits were conducted for the investment and real estate portfolios that are managed by related parties within the Group. For the other segments, we performed the audit work ourselves.
- Audit coverage achieved: 97% of consolidated revenue, 99% of consolidated total assets and 98% of consolidated profit before tax.

Key audit matters

- Valuation of liabilities arising from insurance contracts and insurance contracts for account of policyholders.
- Fair value of 'hard to value' financial instruments.
- Uncertainties in policyholder claims and litigation.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section ‘Our responsibilities for the audit of the financial statements’.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in the aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€ 80 million (2018: € 72 million).
Basis for determining materiality	At the start of the planning of our audit we performed a stakeholders’ analysis that identified suitable benchmarks and thresholds for determining overall materiality for the financial statements. We utilised quantitative and qualitative measures that included the perspective of the common information needs of the parent company,

	policyholders, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. Our evaluation of overall materiality, based on our professional judgment, has been based on applying 2% of equity. This resulted in an initial overall materiality of € 136 million (2018: € 145 million). The allocated materiality to the Group from the auditor of the parent company (Aegon N.V.) that was used for group reporting purposes amounted to € 80 million (2018: € 72 million). We applied the lower of the two amounts as overall materiality in our audit of the financial statements.
Rationale for benchmark applied	Capital, i.e. solvency is a key measurement for regulators, policyholders and other creditors. Accordingly, we used a percentage of the Company's equity as a quantitative benchmark for determining the potential overall materiality as referred to above. The allocated materiality to the Company agreed with the auditor of the parent company Aegon N.V. reflects its shareholders perspective on the financial performance of the Company's operations, and is based on profit before tax.
Component materiality	To each component in our audit scope we, based on our judgment, allocated materiality that is less than our overall group materiality. The range of materiality allocated across components was between € 5 million and € 72 million.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above € 4.0 million (2018: € 3.6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Aegon Nederland N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Aegon Nederland N.V.

We tailored the scope of our audit to ensure that we, in aggregate, achieve sufficient coverage of the financial statements for us to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.

For the majority of the year the Group was structured predominantly along customer segments that were led by separate management teams reporting to the Board of Directors of Aegon Nederland N.V. The following entities were organized within the retail segment: Aegon Schadeverzekering N.V., Aegon Levensverzekering N.V. (Individual life), Aegon Spaarkas N.V., Aegon Advies B.V., Aegon Bemiddeling B.V. and Aegon Hypotheken B.V. The entities Aegon Schadeverzekering N.V. (Income) and Aegon Levensverzekering N.V. (Pensions) were organized within the wholesale segment. KNAB and Aegon

Bank formed separate customer segments. Late in 2019 a new organization structure and governance based on end-to-end business responsibilities organized in value streams was introduced. As a result, the retail and wholesale management structure was dismantled to be replaced by a more streamlined and customer focused approach, aligned with the Group's strategic categories, being 'Drive for Growth', 'Scale-up for the Future' and 'Manage for Value'. In addition, the labels KNAB and Aegon Bank were integrated. Going forward KNAB will be used as Aegon Bank's main brand in the market.

The Group's accounting process is structured around a centralized finance function that supports the individual insurance and banking operations, called reporting units. We consider these reporting units to be components in planning and executing our audit. The finance function maintains all actuarial and tax functions, its own accounting records and controls and reports to senior management and the parent company through an integrated consolidation and reporting system. In establishing the overall approach to the group audit, we determined the type of work that is needed to be performed by our audit team at each of the reporting units.

In our view, due to their significance and/or risk characteristics, the financial information of all regulated banking and insurance operations within the Group, as disclosed in note 41 of the consolidated financial statements, were in scope of our group audit. For all of these operations the group engagement team performed that work, except for the investment and real estate portfolios that are managed by related parties within the Group. For these portfolios, which includes own account investments as well as investments on account of policyholders, we made use of the audit work performed by the respective component auditors. For this we subjected two components to audits of their complete financial information, as those components are individually financially significant to the Group.

This results in the following audit coverage:

Revenue	97 %
Total assets	99 %
Profit before tax	98 %

The coverage percentages are determined based on the financial information of components covered by an auditor's report from the component auditor. This means that in case of intermediate holding companies or other sub-consolidations the consolidated financial information is used to determine the coverage.

None of the remaining components represented more than 3% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the component audit teams in our audit scope. These instructions included amongst others our risk analysis, materiality and scope of the work. We explained to the component audit teams the structure of the Group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach. We had individual calls with each of the in-scope component audit teams during the year and upon conclusion of their work. During these calls, we discussed the risk analysis, significant accounting and audit issues identified by the component auditors, their reports, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements. In addition, we developed an oversight strategy for each component based on its significance and/or risk characteristics to the Group. This strategy included procedures such as regular meetings and discussions with component auditors to challenge and review significant audit matters and judgments within the component team audit files including the review of selected working papers to assess the quality of the work performed. We analyzed the extensive reports received from the component auditors and performed regular site visits to attend closing meetings. The group engagement team visited the component auditors of the investment and real estate portfolios that are managed by related parties within the Group.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit are:

In respect of fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

In respect of non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Board of Directors with the oversight of the Supervisory Board. We refer to the section Risk management' of the financial statements where the Board of Directors has included their perspectives on fraud risk.

Risk of fraud

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks, tested high-risk manual journal entries and evaluated key estimates and judgments for bias by management, and finally we incorporated elements of unpredictability in our audit. We refer to the key audit matters on valuation of insurance contracts and certain investments, that are examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgments.

We have performed an assessment of matters reported on the (Group's) whistleblowing procedures with the entity and results of management's investigation of such matters.

Risk of non-compliance with laws and regulations

There is an industry risk that emerging compliance or litigation areas have not been identified and or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory processes.

In line with Standard 250 we made a distinction between those laws and regulations in our audit approach that :

- have a direct effect on the determination of material amounts and disclosures in the financial statements. For this category, in line with the requirements as included in Standard 250, we obtained sufficient audit evidence regarding compliance with the provision of those laws and regulations; and
- do not have a direct effect on the determination of material amounts and disclosures in the financial statements, but where compliance may be fundamental to the operating aspect of the business, to the Group's ability to continue its business or to avoid material penalties. For this category, we performed specific procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

We identified that the risk of non-compliance with laws and regulations relates mainly to the laws and regulations that have an indirect impact on the financial statements, such as anti-money laundering and anti-terrorist financing regulations, as well as regulations linked to the operating licenses for the group's activities (insurance, asset management, banking) including Solvency II.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Due to the nature of the insurance industry and economic environment the following key audit matters from the prior year remain significant and are expected to occur year over year:

- Valuation of liabilities arising from insurance contracts and insurance contracts on account of policyholders;
- Fair value of 'hard to value' financial instruments; and
- Uncertainties in policyholder claims and litigation.

Key audit matter	*Our audit work and observations*
Valuation of liabilities arising from insurance contracts and insurance contracts for account of policyholders. *Refer to Note 2.15 'Significant accounting policies - Insurance contracts', Note 16 'Insurance contracts', Note 17 'Insurance contracts for account of policyholders' and Note 18 'Guarantees'* to the *consolidated* financial statements for the related disclosures. The Group has insurance contracts stated at € 40.6 billion (2018: € 34.8 billion) and insurance contracts for account of policyholders stated at € 25.3 billion (2018: € 23.9 billion) at December 31, 2019 representing 66% (2018: 67%) of the Group's total liabilities. This area involves the use of complex valuation models and significant judgment over uncertain future outcomes, including the timing and ultimate full settlement of long-term policyholder liabilities, including related guarantees, and as a result is more subject to material misstatement. Therefore, we consider this area a key matter for our audit. To assess the adequacy of the liabilities for insurance contracts, the Group performs liability adequacy testing. This test is performed to verify that the valuation of the liabilities is adequate compared to the expected future contractual cash flows. Consistent with the insurance industry, the Group uses valuation models to support the calculations of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or design or application of the models. Models considered more complex and/or requiring significant judgment in the setting of assumptions are those in respect of the guarantees associated with universal life and annuities along with the corporate pension guarantees.	Our audit focused on the application of complex valuation models and the judgments applied in the assumption setting process. We assessed the design and tested the operating effectiveness of internal controls over the actuarial process that were relevant for the purpose of our audit, including management's determination and approval process for setting economic and actuarial assumptions as well as controls over the Group's actuarial analyses, including estimated versus actual results and experience studies. We assessed the Group's model validation procedures in respect of models that are considered medium and higher risk as a result of complexity and/or magnitude. Our procedures did not identify significant deficiencies. We performed audit procedures over the complex valuation models and the model updates to determine that the models and systems calculated the insurance contract liabilities adequately. For the models used, we considered the appropriateness of data used, as well as actuarial and economic judgments applied, which may vary depending on the product and/or the specifications of the product, and the compliance of the models with the applicable accounting standards. Our work on the liability adequacy test included assessing the reasonableness of the projected cash flows and challenging the main assumptions adopted in the context of both the Group's and industry experience and specific product features, as well as reconciliations to supporting audit information. The quality of previous years' assumptions was assessed by the analyses of the actual versus expected developments. Based on our procedures performed, we found that the assumptions set by management are supported by available audit information and are within a range we consider acceptable based on the Group and market experience. We also validated that the disclosures in the consolidated financial statements are adequate and in

Key audit matter	*Our audit work and observations*
The main assumptions used in measuring the liabilities for insurance contracts relate to mortality, morbidity investment return, future expenses and customer behaviour. Significant judgment is applied in setting these assumptions. Given the magnitude of the insurance contract liabilities and the sensitivities as explained in Note 16 ‘Insurance contracts’ and note 4.2.9 ‘Underwriting risk’, a change in assumptions (especially mortality, morbidity and lapse) could have a significant impact on net income and shareholders’ equity. During 2019, the Group continued a multi-year review of its actuarial models, focussing on those considered medium and high risk. Model updates in combination with the actuarial and economic assumptions update resulted in certain charges being recorded for the year as explained in Note 3.1. ‘Changes in estimates’.	accordance with EU-IFRS. We found the disclosures to be appropriate in this context.
Fair value of 'hard to value' financial instruments. *Refer to Note 2.6 ‘Investments’, Note 2.7 ‘Investments for account of policyholders’, Note 2.8 ‘Derivatives’ and Note 37 ‘Fair value of assets and liabilities’ to the consolidated financial statements for the related disclosures.* The Group’s investment portfolio including net derivative liabilities totalling € 85 billion (2018: € 80 billion) represents 79% (2018: 84%) of the Group’s total assets. The majority of the portfolio consists of more traditional investments with a straightforward valuation. The areas that involved significant audit effort and judgment were the valuation of instruments that are valued based on models and assumptions that are not observable by third parties and/or for which valuation is provided by external experts or data vendors. These investments are generally considered model-based level II and level III as included in Note 37 ‘Fair value of assets and liabilities’. Those investments have a higher potential risk to be affected by error or management bias. Therefore, these areas are considered a key audit matter. Our focus considered both the positions that are presented at fair value on the balance sheet and those positions carried at amortized cost on the balance	We assessed the design and tested the operating effectiveness of internal controls over the investments’ valuation and impairment process including management’s determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and change management for internally operated valuation models and management’s review of valuations provided by external experts or data vendors. Based on this work, we found that we, to the extent relevant for our audit, could rely on these controls. We performed substantive audit procedures to supplement procedures over internal control testing. We either performed an independent valuation or we assessed the appropriateness of the models and assumptions used that drive the valuation. We assessed pricing models and the underlying methodologies against industry practice and relevant valuation guidelines. We compared assumptions used against appropriate benchmarks and external pricing sources, investigated significant valuations using valuation statements, independent broker quotes and underlying financial data, where applicable. In addition, retrospective testing was performed to assess the quality of previous estimates and assumptions. Based on our procedures,

Key audit matter	*Our audit work and observations*
sheet, but for which the fair value is required to be disclosed or relevant to determine the excess value utilized in the liability adequacy test. The risk was not uniform for all investment types and is considered higher for financial instruments traded in the absence of an active market as the fair value of those instruments is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques using unobservable data.	we concluded that the valuation of these investments were within the bandwidth that we consider as acceptable. In respect of the audit of investments in real estate, we, amongst others, considered the objectivity, independence and expertise of the external appraisers that are hired by the Group, and assessed the reasonability of the real estate source data as used by the external appraisers. Furthermore, we determined for a sample of the investments in real estate a range of acceptable outcomes and verified that the valuations fell within this range. We also validated that the disclosures in the consolidated financial statements are adequate and in accordance with EU-IFRS. We found the disclosures to be appropriate in this context.
Uncertainties in policyholder claims and litigation. *Refer to Note 38.4 'Legal and arbitrary proceedings, regulatory proceedings and actions' to the consolidated financial statements for the related disclosures.* The insurance industry continues to face consumer activism and regulatory scrutiny over product design and selling practices. The Group has encountered claims and litigations in this respect. Depending on the actual legal position and expectations from management, claims, including litigation related, are either provided for as a liability or reflected as contingent liabilities in the notes to the financial statements, based on the criteria as outlined in IAS 37. The Group uses internal and external legal experts, where applicable, to evaluate its legal positions. Given the uncertainty and judgment in this area in terms of valuation and presentation and disclosure, this area is subject to the risk of understatement of recorded liabilities and incomplete disclosure of contingent liabilities. Therefore, we determine this as a key audit matter.	We gained an understanding of the policyholders' claims and litigations through discussions with management, including general legal counsel and the compliance office. We have read the internal position papers prepared by the Group. We also obtained lawyers' letters to the extent considered necessary for our audit. For all (potential) material claims, we tested the underlying facts and circumstances considered and assessed the best estimate of outflows as determined by the Group. We tested that the Group has adequately reflected the claims and litigations in either the provisions or the contingent liabilities by assessing these against the criteria in IAS 37. In this respect we assessed whether the Group has a present obligation (legal or constructive) as a result of a past event, whether it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. We also validated that the disclosures in the consolidated financial statements are adequate and in accordance with EUR-IFRS. We found the disclosures to be appropriate in this context.

Emphasis of Matter related to the uncertainty related to the effects of the COVID-19 virus

We draw attention to Note 43 in the consolidated financial statements and Note 18 in the company financial statements in which the Board of Directors has described the possible impact and consequences of the COVID-19 (Corona) virus on the entity and the environment in which the company operates as well as the measures taken and planned to deal with these events or circumstances. This note also indicates that uncertainties remain and that currently it is not reasonably possible to estimate the future impact. Our opinion is not modified in respect of this matter.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the Report of the Board of Directors;
- the Report of the Supervisory Board; and
- the Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the Report of the Board of Directors and the Other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were initially appointed as auditors of Aegon Nederland N.V. by the Board of Directors following the passing of a resolution by the shareholders of Aegon N.V. at the annual meeting held on 15 May 2013. We are the independent auditor for a total uninterrupted period of 6 years.

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Directors and the Supervisory Board for the financial statements

The Board of Directors is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going-concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 8 April 2020
PricewaterhouseCoopers Accountants N.V.

Original signed by: A.R. Vermeulen RA MSc

Appendix to our auditor’s report on the financial statements 2019 of Aegon Nederland N.V.

In addition to what is included in our auditor’s report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor’s responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Concluding on the appropriateness of the Board of Directors use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the Risk & Audit Committee. The information included in this additional report is consistent with our audit opinion in this auditor’s report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.