Aegon Levensverzekering N.V.

Solvency and Financial Condition Report 2020

Contents

Executive summary

Scope of the report

This report is Aegon Levensverzekering's Solvency and Financial Condition Report (SFCR) for the year 2020. This report informs Aegon Levensverzekering's stakeholders about its:

- Business and performance;
- System of governance;
- Risk profile;
- Valuation for solvency purposes; and
- Capital management.

The SFCR report contains both quantitative and qualitative information. The main focus of this report is on the Solvency Balance Sheet, its relation to IFRS and on the Solvency Capital Requirement ("SCR"). Material differences between Aegon Levensverzekering's financial statements based on IFRS-EU and the Delegated Regulation Solvency II, are discussed in chapter D. Valuation for Solvency Purposes.

Basis of presentation

This report is prepared in accordance with the requirements of Solvency II Directive and Delegated Regulation (in particular articles 51, 53 – 55 of the Solvency II Directive, articles 290-298 of the Delegated Regulation, and relevant EIOPA Guidelines, in particular 'Guidelines on reporting and public disclosure' (EIOPA-BoS-15/109) as issued by the European Insurance and Occupational Pensions Authority (EIOPA).

The figures reflecting monetary amounts in the SFCR are presented in Euro (€) unless otherwise stated. Aegon Levensverzekering discloses monetary amounts in millions of units for disclosing purposes. All values are rounded to the nearest million unless otherwise stated. The rounded amounts may therefore 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.

In case IFRS figures are disclosed, the figures are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS-EU).

The 2020 SFCR of Aegon Levensverzekering has been prepared and disclosed under the responsibility of the Executive Board. This document was approved on March 23, 2021 by Aegon Levensverzekering's Executive Board.

Summary

The 2020 Solvency Financial Condition Report provides Aegon Levensverzekering's stakeholders with insight into:

A. Business and performance

Aegon Nederland N.V. (hereafter: Aegon Nederland) is the holding company of Aegon Levensverzekering N.V. (hereafter: Aegon Levensverzekering) and several other companies, such as Aegon Schadeverzekering N.V., Aegon Spaarkas N.V. and Aegon Bank N.V., which together form the Aegon Nederland-group. Aegon Levensverzekering is the main life insurance carrier for the Aegon Group of companies in The Netherlands.

Aegon Nederland is transitioning from a traditional insurer to a customer-centric financial services provider. Our ambition is to become the most customer-centric and innovative financial services provider within the Dutch market. Our strategy is centered 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"). To fulfil our mission, we continue to focus on the domains that are essential to ensure a healthy financial future for our customers: in the field of "Income" and "Living", for the present and for the future.

On December 10, 2020 at the Capital Markets Day, Aegon N.V. CEO Lard Friese announced the new global strategy and financial targets of Aegon N.V. Within the refocused strategy, the Netherlands (together with Aegon UK and Aegon US, and Aegon Asset Management as a global activity) remains a core country within Aegon N.V. where investments continue to be made in growth.

In order to achieve our strategic and financial goals, the various business units of Aegon Nederland are managed and organized in two categories:

- Financial assets: where we focus on maximizing value and gradually releasing capital to invest in strategic assets, and
- Strategic asset: the businesses in which we will invest to grow our customer base, improve customer retention, and margins.

Financial assets

Aegon Levensverzekering is considered a financial asset. The focus is on protecting and generating capital and on cost reduction by outsourcing of the servicing of the life books towards partners. As of 2020, the Individual Life book is serviced by IBM and the servicing of the Group Life book by the Aegon subsidiary TKP Pensioen was largely finalized in 2020. Apart from immediate pension annuities (DIP) and indexations of existing Group Life customers, we no longer accept new customers as of 2021.

Performance

Aegon Levensverzekering's consolidated income before tax for 2020 amounted to € 334 million (-/- € 432 million in 2019), significantly higher than in 2019, mainly as a result of the fair value items in the income statement. Furthermore, in 2020 there was a significant positive impact of model and assumption changes.

The gross written premium for 2020 decreased to € 1,633 million (€ 1,811 million in 2019) which is driven by the shrinking individual life portfolio and a shift in traditional pension portfolio from defined benefit towards defined contribution solutions.

Commissions and expenses for 2020 in the amount of € 315 million were in line with 2019 (€ 304 million in 2019). The claims and benefits paid to policyholders in 2020 (€ 2,928 million) are slightly lower than 2019 (€ 3,016 million).

The change in valuation of liabilities for insurance and investment contracts is the result of fair value changes of the guarantee provision as well as the loss recorded as a result of the Liability Adequacy Test (LAT) deficit. The change includes a loss of € 1,671 million (2019: loss of € 1,474 million) relating to fair value movements of guarantees and is due to the increase of the guarantee provision as a result of lower interest rates in 2020.

Full details on the Aegon's business and performance are described in chapter A. Business and performance.

B. System of governance

The system of governance has been put in place centrally at Aegon Nederland, which is the holding company of Aegon Levensverzekering and several other companies and is used throughout Aegon Nederland. Aegon Levensverzekering complies with the policies of both Aegon Group and Aegon Nederland. The Aegon Nederland policies are tailored to fit local circumstances and therefore imply additional restrictions to the Group policies.

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. 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: Drive for Growth, Scale-up for the Future, and Manage for Value. Aegon Nederland has made progress in the execution of Aegon Nederland's strategy by driving efficiencies and allocating capital to those activities with the best growth prospects. More information is provided in Chapter B.

General governance

Aegon Levensverzekering's Executive Board is charged with the overall management of the Company and is responsible for achieving Aegon Levensverzekering's goals, developing the strategy and its associated risk profile. In addition to overseeing any relevant sustainability issues and the development of Aegon Levensverzekering's earnings. Aegon Levensverzekering's Executive Board is assisted in its work by the Management Team Aegon Netherlands. The Management Team Aegon Netherlands is comprised of all the members of Executive Board, the chief people officer (director of human resources) and the director Legal Affairs.

Aegon Levensverzekering's Supervisory Board oversees the management of the Executive Board, in addition to the Company's business and strategy. It is also responsible for advising the Executive Board. The Supervisory Board counts five members as per December 31, 2020. The majority of the members of the Supervisory Board are independent and operate independently in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2012 (Beleidsregel geschiktheid 2012). Given the members' different professional and educational backgrounds, ages and range of knowledge and experience, the Supervisory Board has a broad-based membership. The following Supervisory Board committees exist:
- Risk & Audit Committee; and
- Compensation Committee.

These committees are exclusively comprised of Supervisory Board members and deal with specific issues related to Aegon Levensverzekering's financial accounts, risk management, the remuneration policy and executive appointments.

In addition to the corporate bodies, described above, Aegon Levensverzekering has in place a number of key functions, as required under Solvency II. These key functions are described below, in the section 'control environment'.

Risk management

Aegon Levensverzekering's risk management framework is designed and applied to identify and manage potential events and risks that may affect Aegon Levensverzekering. It is established through the Enterprise Risk Management (ERM) framework, which aims at identifying and managing individual and aggregate risks within Aegon Levensverzekering's risk tolerance limits in order to provide reasonable assurance on the achievement of Aegon Levensverzekering's objectives. Aegon Levensverzekering's ERM framework is based on a well-defined risk governance structure:
- Supervisory Board;
- Executive Board;
- Management Team Aegon Netherlands;
- Risk & Capital Committee.

Control environment

In addition to the risk management framework, Aegon Levensverzekering's Solvency II control environment consists of an internal control system, an actuarial function and an internal audit function. The internal control system serves to facilitate compliance with applicable laws, regulation and administrative processes. It also provides Aegon Levensverzekering with an adequate control environment including appropriate control activities for key processes. The actuarial function has end-to-end accountability for the adequacy and reliability of reported technical provisions, including policy setting and monitoring of compliance regarding actuarial risk tolerance. Aegon Levensverzekering's internal audit function is independent and objective in performing its duties in evaluating the effectiveness of Aegon Levensverzekering's internal control system.

Full details on the Aegon Levensverzekering's system of governance are described in chapter B. System of governance.

C. Risk profile

Aegon Levensverzekering accepts and manages risk for the benefit of its customers and other stakeholders. Aegon Levensverzekering's risk management and control systems are designed to ensure that these risks are managed effectively and efficiently, aligned with the Aegon Levensverzekering's strategy. The targeted risk profile is determined by customers' needs, Aegon Levensverzekering's competence to manage the risk, Aegon Levensverzekering's preference for risk as well as by the availability of sufficient capacity to take the risk. Aegon Levensverzekering is exposed to a range of underwriting, market, credit, liquidity and operational risks.

Key risks reflect the following:
Aegon Levensverzekering's Partial Internal Model (PIM) SCR amounts to € 3,459 million per December 31, 2020 (2019: € 3,219 million). The increase in SCR compared to year end 2019 is driven by market movements and model and assumption changes, with an offset from normalized capital generation. The impact from model and assumption changes reflects several Pension model changes, a change in the capital treatment of illiquid assets (private loans) and the reduction of the LAC DT factor.

Full details on the Aegon's risk profile are described in chapter C. Risk profile.

Amounts in € million	Components description	**2020**	2019
C.3 Market risk	Market risk (SF)	761	1,071
	Market risk (IM)	2,016	1,819
C.3 Credit risk	Counterparty default risk (SF)	119	108
	Counterparty default risk (IM)	-	-
C.2 Underwriting risk	Life underwriting risk (SF)	999	860
	Life underwriting risk (IM)	2,175	1,597
	Health underwriting risk (SF)	-	-
	Health underwriting risk (IM)	-	-
	Non-life underwriting risk (SF)	-	23
	Non-life underwriting risk (IM)	-	-
C.5 Operational risk	Operational risk (SF) including De Hoop	316	300
	Operational risk (IM)	-	-
E.2 Solvency Capital Requirement	Diversification	-/- 2,469	-/- 2,020
	LAC Deferred Taxes	-/- 457	-/- 539
	Total SCR	**3,459**	**3,219**

D. Valuation for Solvency purposes

Aegon Levensverzekering values its Solvency II balance sheet items on a basis that reflects their economic value. Where the IFRS fair value is consistent with Solvency II requirements, Aegon Levensverzekering follows IFRS for valuing assets and liabilities other than technical provisions.

The reconciliation of Excess Assets over Liabilities (Solvency II basis) and Shareholder's Equity (IFRS-EU basis) can be summarized as follows:

- Revaluation differences mainly on assets and liabilities using a method other than fair value in the IFRS balance sheet;
- De-recognition of items on the Solvency II economic balance sheet that are admissible on the IFRS statement of financial position but not under Solvency II, for instance Deferred policy acquisition costs, Goodwill and Intangible assets.

Full details on the reconciliation between Aegon Levensverzekering's economic balance sheet based on Solvency II and consolidated financial statements based on IFRS-EU are described in chapter D. Valuation for solvency purposes.

E. Capital management

Eligible own funds of Aegon Levensverzekering equaled 159% of the SCR at year end 2020. This ratio being higher than 100%, demonstrates Aegon's ability to meet policyholder obligations when they fall due, even under stressed conditions.
The bottom-end of the capitalization target range for the Solvency II ratio (Eligible own funds divided by SCR) of Aegon Levensverzekering is set by the company's Executive Board at 135% (per January 1st, 2021).
The Solvency II ratio at year end 2020 (159%) is lower than at year end 2019 (164%).

The current capitalization of Aegon Levensverzekering is within the target range.

Solvency II key figures for Aegon Levensverzekering are presented as of December 31, 2020, in the following tables:

Amounts in € million	**December 31, 2020**	December 31, 2019
Own funds	5,507	5,278
PIM SCR	3,459	3,219
Solvency II ratio	159%	164%
Solvency II ratio without Volatility Adjustment	102%	117%
Minimum Capital Requirement (MCR)	1,403	1,334

Unrestricted Tier 1 – before adjustments	5,701	5,193
Non-available	-/- 850	-/- 850
Tier 2	600	600
Tier 3	56	335
Total eligible Own Funds to meet the SCR	**5,507**	**5,278**

Compared to Q4 2019, Eligible own funds increased mainly due to normalized capital generation, the impact from the mortality table update and market movements (where decreased interest rates resulted in a gain due to the overhedged position on a Solvency II basis). The increase is offset by the UFR decrease (to 3.75%) and dividend payments in the first and fourth quarter of 2020.

Aegon Levensverzekering uses a Partial Internal Model (PIM) to calculate the solvency position. Aegon's internal model was approved by the College of Supervisors as part of the Internal Model Application Process. Aegon is of the opinion a (partial) internal model is a better representation of the actual risk, since this contains Company specific modelling and sensitivities as opposed to industry-wide approximations included in the standard formula methodology. When using the standard formula of the Solvency II legislative framework, Aegon Levensverzekering has not applied simplified calculations or undertaking specific parameters for any of the risk modules and sub-risk modules.

With respect to the Eligible own Funds of Aegon Levensverzekering, the liability calculation includes the use of the Volatility Adjustment (VA) but does not include the use of any transitional measures. Aegon Levensverzekering uses a Partial Internal Model 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 Levensverzekering made several major changes to its PIM, the latest in 2020, all of which have been approved by the DNB.

In 2020 Aegon Levensverzekering has identified improvements to its internal model that mitigate volatility caused by the basis risk between the EIOPA VA reference portfolio and its own asset portfolio (“Deterministic adjustment”). These improvements were implemented for year-end reporting and they will be in place until changes arising from the Solvency II review are enacted.

On the 8th of December, 2020 the DNB published a new Q&A for LAC DT following amendments to the Solvency II Delegated regulation, published in the Official Journal of the EU on June 18, 2019, referred to as the Solvency II 2018 review. Within this Q&A additional guidance is provided regarding:

- Consideration of uncertainty within profit sources which increases over time;
- No external recapitalization allowed unless the recapitalization is unconditional, but also no recapitalization hurdle requirement;
- The IAS 12 substantiation is not sufficient anymore. It should be made clear from the Solvency II projections that sufficient future profit sources are available to substantiate the (pre-shock) DTA position;
- Reporting requirements.

Aegon Levensverzekering decided to lower the factor applied when calculating the loss-absorbing capacity of deferred taxes (LAC DT) from 65% at year end 2019 to 45% at year end 2020 to reduce the sensitivity of this factor to economic variances going forward, and to take into account industry-wide Q&A and good practices recently published by the Dutch Central Bank. Furthermore, the corporate tax rate was increased to reflect the reversal of the corporate tax rate lowering in 2021 (from 21.7% to 25%). 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.

The Solvency II balance sheet of Aegon Levensverzekering does not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon Levensverzekering in the past, as the potential liability cannot be reliably quantified at this point.

Aegon Levensverzekering was compliant with the Minimum Capital Requirement (MCR) over the reporting period 2020. Furthermore, there was no non-compliance with the SCR.

Full details on the Aegon's available and eligible own funds are described in section E.1 Own funds. Details on Aegon's PIM SCR is described in section E.2.1 Solvency capital requirement.

A. Business and performance

A.1. Business

A.1.1. Name, details and legal form of the undertaking
Aegon Levensverzekering's share capital is 100% held by Aegon Nederland. Aegon Nederland's share capital is 100% held by Aegon Europe Holding B.V. Aegon Europe Holding B.V.'s share capital is 100% held by Aegon N.V., the ultimate parent company of the Aegon Group. Aegon Nederland and Aegon N.V. are public limited liability companies and Aegon Europe Holding B.V. is a private limited liability company. Aegon N.V., Aegon Nederland and Aegon Europe Holding B.V. have their statutory seats in The Hague, the Netherlands. All of these companies are mixed financial holding companies, as defined in article 212 (1) (h) of the Solvency II Directive. Solvency II group supervision, as well as supplementary supervision in accordance with EU Directive 2002/87/EC is exercised at the level of Aegon N.V..

Aegon N.V.'s largest shareholder is Vereniging Aegon, a Dutch association located in The Hague, the Netherlands, with the special purpose to protect the broader interests of Aegon N.V. and its stakeholders. On December 31, 2020, Vereniging Aegon held a total of 291,145,638 common shares and 558,910,640 common shares B. All issued and outstanding shares B are held by Vereniging Aegon. Under the terms of the 1983 Merger Agreement as amended in May 2013, Vereniging Aegon has the option to acquire additional common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake to 32.6% of the voting rights, irrespective of the circumstances that caused the total shareholding to be or become lower than 32.6%.

The Voting Rights Agreement entered into between Vereniging Aegon and Aegon provides that under normal circumstances, i.e. except in the event of a Special Cause, Vereniging Aegon is not allowed to exercise more votes than is proportionate to the financial rights represented by its shares. This means that in the absence of a Special Cause, Vereniging Aegon may cast one vote for every common share it holds and one vote only for every 40 common shares B it holds. In the event of a Special Cause, Vereniging Aegon may cast one vote for every common share and one vote for every common share B.

A Special Cause may include:

- The acquisition by a third party of an interest in Aegon N.V. amounting to 15% or more;
- A tender offer for Aegon N.V. shares; or
- A proposed business combination by any person or group of persons, whether acting individually or as a group, other than in a transaction approved by the Company's Executive and Supervisory Boards.

If Vereniging Aegon, acting at its sole discretion, determines that a Special Cause has arisen, it must notify the General Meeting of Shareholders. In this event, Vereniging Aegon retains full voting rights on its common shares B for a period limited to six months. Vereniging Aegon would, for that limited period, command 32.6% of the votes at a General Meeting of Shareholders.

Aegon Levensverzekering is the parent company of several subsidiaries, and other related undertakings, which have been described below in accordance with their description in the annual accounts of Aegon Levensverzekering as investments in associates and joint ventures:

	Country of incorporation	Primary business operation	**% equity interest 2020**	% equity interest 2019
AEGON DL B.V.	The Netherlands	Investment Company	100%	100%
AEGON Vast Goed III B.V.	The Netherlands	Investment Company	-	100%
AEGON Vast Goed IV B.V.	The Netherlands	Investment Company	-	100%
AMVEST Home Free B.V.	The Netherlands	Investment Company	100%	100%
Vastgoedmaatschappij Inpa B.V.	The Netherlands	Investment Company	100%	100%
US PENG, INC., Wilmington	United States	Investment Company	100%	100%

Significant changes in group companies during the year:
- Aegon Vastgoed III B.V. and Aegon Vast Goed IV merged with Aegon Levensverzekering on December 31, 2019, after which these first two companies ceased to exist on January 1, 2020.

Investments in associates and joint ventures

Aegon Levensverzekering has the following investments in associates and joint ventures.

Associates

The principle associates of Aegon Levensverzekering are:
- Amvest Residential Core Fund, (28.9%) real estate;
- N.V. Levensverzekering-Maatschappij 'De Hoop', The Hague (33.3%);
- OB Capital Cooperatief U.A., Schiphol (95%).

Since 2017, Aegon Levensverzekering invests in OB Capital Cooperatief U.A. which 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. on December 31, 2020. 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.

Up to 2019 the Amvest Residential Core Fund was accounted for as 'Investment in joint ventures'. The interest of Aegon Nederland in the Amvest Residential Core Fund was reduced in previous years due to the entrance of other participants in the fund. As a result of this Aegon Nederland does not have joint control. As Aegon Nederland has significant influence, the investment in the Amvest Residential Core Fund is now accounted for as associate.

Joint ventures

- Amvest Vastgoed B.V., Utrecht (50%), property management and real estate;
- Amvest Development Fund B.V., Utrecht (50%), 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.

Investments in structured entities

Aegon Levensverzekering currently holds no investments in structured entities.

A.1.2. Name of the Supervisory Authority responsible for the financial supervision of the undertaking and group

For both Aegon Levensverzekering and Aegon Group, the supervisory authority responsible for prudential supervision is:

De Nederlandsche Bank N.V.
Westeinde 1
1017 ZN Amsterdam
Postbus 98
1000 AB Amsterdam.
Telephone: +31(0)20-5249111

A.1.3. Name and contact details of the external auditor of the undertaking

The external auditor of Aegon Levensverzekering is:

PricewaterhouseCoopers Accountants N.V.
Thomas R. Malthusstraat 5
1066 JR Amsterdam
Postbus 90357
1006 BJ Amsterdam The Netherlands
Telephone: +31(0)88-7920020

The external auditor's mandate does not cover an audit on the information disclosed in this SFCR.

A.1.4. The undertaking's material lines of business and material geographical areas where it carries out business

Aegon Levensverzekering is incorporated and domiciled in the Netherlands and operates from The Hague and Leeuwarden. Aegon Levensverzekering and its subsidiaries are active in life insurance and pensions operations and investment products, mortgages and pension administration.

A.1.5. Any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking

Aegon Levensverzekering, is incorporated and domiciled in the Netherlands. Aegon Levensverzekering is active in life insurance and pensions.

Life - Pensions

Interest rates have been low for an extended period of time. Together with the fundamental changes of the Dutch pension system as of 2026 this drives a shift from Defined Benefit (DB) pension plans to Defined Contribution (DC) pension plans. In DC plans all investment risk and longevity risk is borne by the policyholder and Aegon Nederland offers these in a separate legal entity, Aegon Cappital.

Aegon Levensverzekering now primarily manages premium paying DB products, immediate pension annuities, and existing DB and DC books. As of 2021, Aegon Levensverzekering will stop offering new DB premium paying contracts and only continue with renewals in DB subscriptions while managing as a financial asset.

The transfer of the administration of insured DC policies to Aegon Nederland's subsidiary TKP Pensioen was largely finalized in 2020. Together with the administration of Aegon Cappital, all DC schemes of Aegon Nederland are now administered at TKP Pensioen. In 2020 the transfer of the administration of the DB policies to TKP Pensioen was started. As a result, the first DB contracts were 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 its pricing discipline, thus achieving a positive gross Value of New Business.

The AFM imposed a fine on Aegon Levensverzekering in 2020 for the way in which the "Uitkerend Beleggingspensioen" (UBP) was developed in 2016. The fine was given because Aegon Levensverzekering had not built in sufficient checks and balances to protect the interests of participants during the development of the UBP. Already in 2019, a reparation action was initiated whereby both the development and the acceptance process of the product were improved resolving the issue.

Life - Individual

In line with 2019, the year 2020 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, largely due to the strategic decision to stop offering new business in the Term-Life and (Deferred) Annuity proposition in 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. To keep a grip on the costs of the declining portfolio, Aegon Nederland started business process outsourcing (BPO) for the Individual Life service book as of June 1, 2020. This BPO will be carried out in cooperation with partner IBM and makes Aegon Nederland's costs more variable.

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

A.2. Underwriting performance

In this section we highlight the key attributors to the underwriting performance. The figures below are based on the annual IFRS accounts of Aegon Levensverzekering (Company financial statements). As of the financial statements 2020 Aegon Levensverzekering no longer prepares consolidated financial statements.

Table: Underwriting Performance Aegon Levensverzekering

Amounts in € million	**2020**	2019
1 Premium income	1,633	1,811
2 Commissions and expenses	-/- 315	-/- 306
3 Claims and benefits paid to policyholders	-/- 2,928	-/- 3,016
4 Change in valuation of liabilities for insurance and investment contracts	-/- 3,148	-/- 6.295
5 Income before tax	334	-/- 413

1 Premium income

Premium income for 2020 amounts to € 1,633 million, which is € 178 million lower compared to 2019. The decrease is mainly driven by shrinking Individual Life portfolio and shifts in traditional pension portfolio from Defined Benefit towards Defined Contribution solutions. Defined Contribution plans are no longer offered by Aegon Levensverzekering, but are placed with Aegon Cappital, which is a subsidiary of Aegon Nederland.

2 Commissions and expenses

The commissions and expenses were in line with 2019.

3 Claims and benefits paid to policyholders

The claims and benefits paid to policyholders for 2019 decreased by € 88 million in 2020 but are in line with 2019.

4 Change in valuation of liabilities for insurance and investment contracts

The change 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 equity market developments as well as the loss recorded as a result of the LAT deficit. The change in valuation of liabilities for insurance and investment contracts include a loss of € 1,671 million (2019: loss of € 1,474 million) regarding fair value movements of guarantees. This change is due to the increase of the guarantee provision as a result of lower interest rates in 2020.

5 Income before tax

The income before tax for 2020 was € 334 million (2019: € -/- 413 million), significantly higher than in 2019, which is mainly explained by the fair value items in the income statement. In 2020 the negative result due to the LAT headroom deficit was largely offset by the positive result on the guaranteed portfolio and the interest hedges. Furthermore, there was a significant positive impact of model and assumption updates.

A.3. Investment performance

In this section the key attributors to the investment performance are presented. The figures below are based on the company financial statements of Aegon Levensverzekering.

A.3.1. Breakdown of investments

Aegon Levensverzekering holds investments both for the own general account and for the account of policyholders. The composition of the assets in the balance sheet is presented in the following table.

Table: Breakdown financial assets 2020

Amounts in € million	**General Account**	**Account Policyholder**	**Total assets**
Debt securities	23,046	9,699	32,745
Loans	18,411	2,220	20,631
Other investments	103	4,929	5,031
Shares	5,685	7,114	12,799
Real estate	1,858	546	2,404
Total	**49,103**	**24,507**	**73,610**

During 2020 Aegon Levensverzekering made significant investments in its debt securities portfolio in line with the investment plan. Apart from that, the composition of the asset portfolio for both general account and for the account of policyholders remained relatively stable throughout 2020 compared to 2019.

Table: Breakdown financial assets 2019

Amounts in € million	**General Account**	**Account Policyholder**	**Total assets**
Debt securities	16,644	9,234	25,878
Loans	17,483	2,351	19,834
Other investments	245	4,964	5,209
Shares	4,519	7,260	11,779
Real estate	1,829	478	2,307
Total	**40,720**	**24,287**	**65,007**

A.3.2. Investment performance

The investment performance consists of attributors shown in (a) IFRS income statements and of attributors (b) directly through equity in the IFRS balance sheet.

Table: Investment performance through Profit and loss

Amounts in € million	**2020**	2019
1 Investment income	1,469	1,580
2 Results from financial transactions	3,675	5,849

1 Investment income

The investment income is further explained in the table below.

Table: Breakdown Investment Income

Amounts in € million	**2020**	2019
Debt securities (Interest)	563	574
Loans (Interest)	535	566
Other investments (Interest)	143	196
Shares (Dividend income)	168	188
Real estate (Rental income)	60	57
Total	**1,469**	**1,580**
Investment income related to general account	1,070	1,125
Investment income for account of policyholders	399	455
Total	**1,469**	**1,580**

2 Results from financial transactions
The results from financial transaction are further explained in the table below:

Table: Breakdown Results from financial transactions

Amounts in € million	**2020**	2019
Net fair value change of general account financial investments FVTPL, other than derivatives	-/- 40	36
Realized gains / (losses) on financial investments	15	317
Gains / (losses) on investments in real estate	93	133
Net fair value change of derivatives	2,590	2,395
Net fair value change on financial assets at fair value through profit or loss for account of policyholder	1,068	2,853
Net foreign currency gains / (losses)	-/- 52	15
Total	**3,675**	**5,749**

Information about Investment performance through equity

Table: Investment performance through equity

Amounts in € million	**2020**	2019
Gains / (losses) on revaluation of available-for-sale investments	-/- 81	-112
Net gains / (losses) transferred to income statement	-/- 13	-/- 232

The Gains / (losses) on revaluation of available-for-sale investments and Impairment of available-for-sale investments are relevant attributors that are included in the statement of other comprehensive income in the IFRS financial statements. Both attributors relate to the revaluation of assets that classified as available-for-sale, such as certain debt securities and are shown directly in equity on the IFRS balance sheet.

A.3.3. Investments in securitization
Aegon Levensverzekering's interests in unconsolidated structured entities can be characterized as basic interests. Aegon Levensverzekering does not have loans, derivatives or other interests related to these investments.

For unconsolidated structured entities in which Aegon Levensverzekering has an interest, the following table presents the amount of investments and total income received.

Table: Investment income on Investments in Securitizations 2020

Amounts in € million	Interest income	Total gains and losses	**Total**	Investments
Residential mortgage backed securities	1	2	3	51
Commercial mortgage backed securities	0	0	0	12
Asset Backed Securities	14	0	14	1,409
ABS's - Other	0	0	0	2
Total	**15**	**2**	**17**	**1,474**

Table: Investment income on Investments in Securitizations 2019

Amounts in € million	Interest income	Total gains and losses	**Total**	Investments
Residential mortgage backed securities	1	1	2	113
Commercial mortgage backed securities	0	0	0	13
Asset Backed Securities	15	-/- 9	5	777
ABS's - Other	1	1	2	60
Total	**17**	**-/- 7**	**9**	**962**

A.4. Performance of other activities

Aegon Levensverzekering does not perform any other activities than underwriting and investment activities. Therefore, overall performance is disclosed under A.2 Underwriting performance and A.3 Investment performance.

A.5. Any other information

All relevant information is covered in the previous sections.

B. System of governance

B.1. General information on the system of governance

B.1.1. Structure, roles and responsibilities of the Administrative, Management or Supervisory Body (AMSB)

Structure

Aegon Nederland N.V. (hereafter: Aegon Nederland) is the holding company of Aegon Levensverzekering N.V. (hereafter: Aegon Levensverzekering) and several other companies, such as Aegon Schadeverzekering N.V., Aegon Spaarkas N.V. and Aegon Bank N.V., which together form the Aegon Nederland-group. The Executive Board of Aegon Nederland centrally manages the Aegon Nederland-group and forms the statutory board in charge of the day-to-day management of Aegon Levensverzekering. Because Aegon Levensverzekering is part of the Aegon Nederland-group, the report on the system of governance will also contain various references to Aegon Nederland, amongst others the key functions that are centrally organized at Aegon Nederland.

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. 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: Drive for Growth, Scale-up for the Future, and Manage for Value. Aegon Nederland has made progress in the execution of Aegon Nederland'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.

To improve the corporate agility to drive productivity, time to market, quality and customer and employee satisfaction, Aegon Nederland incorporated agile functions and responsibilities and implemented SAFE processes to support our delivery of value to our clients (so called Target Operating Model). The processes are designed to find the optimal balance between 'value, time criticality and risk reduction' and align 'strategy with execution'. This ensures a way of working in which Quality by Design is embedded.

The following three departments are established in our Operating Model:

- **Value Stream (VS):** the VS is integral responsible for running and changing the business and has end-to-end responsibility;
- **Enabling Shared Service (ESS):** An ESS enables the VS to deliver value to customers by delivering generic services;
- **Center of Expertise (COE):** the COE delivers expertise and dedicated people to the VS and ESS.

From the perspective of VSB, ESS and COE the reporting lines are as follows:

Departments	Reporting line to
VSB Insured Pension	Chief Operating Officer
VSB Accident & Health	Chief Operating Officer
VSB P&C	Chief Operating Officer
VSB Defined Contribution	Chief Operating Officer with regard to Aegon Levensverzekering N.V. CEO Aegon Cappital with regard to Aegon Cappital B.V.
VSB Mortgages	Chief Operating Officer
VSB Life	Chief Technology & Transformation Officer
ESS	Chief Technology &Transformation Officer/ Chief Data Officer
COE	Chief Operating Officer/ Chief Data Officer

Roles and responsibilities

The Supervisory Board, the Executive Board, the Management Team NL (MTNL) and the relevant committees form together Aegon Nederland's administrative, management and supervisory body (AMSB).

Supervisory Board

Aegon Nederland has a Supervisory Board which is responsible for supervising the policies of the Executive Board and the general course of affairs within Aegon Nederland and its related entities. The Supervisory Board is also responsible for advising the Executive Board. The Supervisory Board has adopted rules on its way of working and decision making. The supervision by the Supervisory Board shall also include: (i) focusing on the client's interests; (ii) achieving Aegon Nederland's objectives; (iii) the strategy; (iv) the risks associated with Aegon Nederland's activities, including Aegon Nederland's risk policy and risk appetite; (v) the structure and operation of the internal risk management and control systems; (vi) the financial reporting process; (vii) implementation of the Aegon Nederland Remuneration Policy; and (viii) compliance with the applicable legislation and regulations.

The majority of the members of the Supervisory Board are independent and operate independently in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2012 (Beleidsregel geschiktheid 2012). Given the members' different professional and educational backgrounds, ages and range of knowledge and experience, the Supervisory Board has a broad-based membership.

The terms of the Supervisory Board members are as follows:

Name	Year of first appointment	(Re-) Appointment	Resigns
Mrs. D.H. Jansen Heijtmajer	2016	August 4, 2020	2024
Mrs. M.J.E. Hoek	2019	May 13, 2019	2023
Mr. D.F.R. Jacobovits de Szeged	2018	January 1, 2018	2022
Mr. G.J.M. Vrancken	2019	January 1, 2019	2023
Mr. G.T. Kepecs	2012	June 30, 2017	2021

Executive Board

The Executive Board is charged with the management of Aegon Nederland and its related entities, which means, among other things, that the Executive Board is responsible for setting and achieving Aegon Nederland's objectives, and the associated risk strategy and risk tolerance. The Executive Board is accountable for these matters to the Supervisory Board and the General Meeting of Shareholders. The Executive Board members are collectively responsible for the management of Aegon Nederland and is responsible for ensuring that Aegon Nederland and its related entities are compliant with all relevant laws and regulation. The Executive Board reports on these issues to and discusses the internal risk management and control systems with the Supervisory Board and the Risk and Audit Committee of the Supervisory Board.

The composition of the Executive Board as of December 31, 2020 is as follows:

- Mr. M.J.P. Edixhoven (chief executive officer);
- Mr. B. Magid (chief financial officer);
- Mr. W. Horstmann (chief risk officer);
- Mr. W.A. Hekstra (chief operating officer);
- Mrs. A. Schlichting (chief technology & transformation officer).

Management Team Aegon Netherlands

The Executive Board has established the Management Team Aegon Netherlands ('MTNL') which advises the Executive Board at strategic and tactical level. In 2020 the MTNL consisted of the following members:

- all members of the Executive Board;
- chief people officer (director of human resources);
- director Legal Affairs.

Committees and Boards

The Supervisory Board and/or the Executive Board have established Committees and Boards which sometimes have an advisory role and are sometimes authorized to take certain decisions on behalf of the Executive Board. These Committees and Boards always report and escalate to the Supervisory Board and/or the Executive Board of Aegon Nederland. The composition, tasks, responsibilities and reporting and escalation lines are laid down in a charter for each Committee and Board. The charters are made accessible to the organization via the Aegon Nederland Policy House. These Committees and Boards are the:

- **Risk and Audit Committee (RAC):** the RAC is instituted by the Supervisory and the Executive Board and focuses on the effectiveness and appropriateness of the internal risk management strategy, risk management framework and risk controls (collectively Enterprise Risk Management) of Aegon

Nederland.

- **Risk and Capital Committee (RCC):** the RCC is instituted by MTNL and is a decision making and an advising body. The purpose of the RCC is to perform management of financial risks, capital and associated expected return, in order to maintain a strong capital position of the Aegon Nederland-group as a whole.
- **Compensation Committee:** the Compensation Committee is instituted by the Supervisory Board and is designated to safeguard sound remuneration policies and practices within Aegon Nederland by overseeing the development and execution of these policies and practices.
- **Proposition Approval Board:** The Proposition Approval Board is instituted by the Executive Board of Aegon Nederland and has the purpose to assess whether propositions meet requirements from the perspective of customer interest, internally set policies and procedures and the applicable laws and regulations as well as from the perspective of Social Responsibility.
- **Reputation Board:** The Reputation Board is instituted by the Executive Board of Aegon Nederland. The Reputation Board is responsible for the Reputation Policy that fits in with the vision of Aegon Nederland as a customer focused company. It ensures that there is structural attention for and guaranteeing the desired reputation with all (internal and external) stakeholders of Aegon Nederland.
- **Pricing Board:** The Pricing Board is instituted by the Executive Board of Aegon Nederland. The Pricing Board has the generic goal of making good quality pricing decisions and to guarantee the quality of the processes to arrive at these decisions. In this Board the alignment of actuarial pricing, commercial interest, business interest and customer interest as proposed by a value stream is assessed.
- **Data Governance Board:** The Data Governance Board is instituted by the Executive Board of Aegon Nederland. Data Governance is an important part of the way Aegon Nederland deals with data management. The Data Governance Board will supervise and outline frameworks for consistent and accurate data processing.

An assessment of the adequacy of the system of governance

As assessed during the DNB Risk Management Function onsite, the DNB Compliance onsite and the DNB Q&A Key Functions with regard to SII requirements as applicable to the insurance entities of Aegon Nederland, Aegon Nederland must perform an integral evaluation of the system of governance in order to assess its appropriateness in relation to the strategy and the business operations. Aegon Nederland has performed an overarching evaluation which includes assessments of the setup and structure of the governance and Solvency II key functions in the second quarter of 2020. This evaluation is shared with DNB.

B.1.2. Key Functions

Apart from the Supervisory Board, the Executive Board and the Management Team Aegon Nederland, in line with Solvency II Delegated Regulation, Aegon Nederland has identified the following individuals as Key Function Holders.

Actuarial Function Holder	Risk Function Holder	Compliance Function Holder	Internal Audit Function Holder
Tjeerd Degenaar	Willem Horstmann (until May 31, 2020)	Heleen Rietdijk (until December 31, 2020)	Mark Zantman (until June 30, 2020)
	Martijn Tans (from June 1, 2020)	Willem Horstmann (a.i. from January 1, 2021)	Paul van der Zwan (from July 1, 2020)

- **Risk management:** Until May 31, 2020, the Aegon Nederland CRO was also the function holder for risk management. From June 1, 2020 Martijn Tans has been appointed as the RFH. The RFH is positioned under the statutory board member who directs the department of Risk & Compliance, also the Chief Risk Officer (CRO). The RFH operates independently from the first line functions and other functions and reports (and escalates if necessary), next to the CRO, also periodically to the Executive Board and to the Risk & Audit Committee of the Supervisory Board.

- **Compliance:** The Chief Compliance Officer is the key function holder for compliance. The Chief Compliance Officer reports to the CRO and is therefore a second line role given Solvency II independence requirements and responsibility for ensuring that the risk profile is managed in line with risk tolerance. The compliance function holder has an escalation possibility to the CEO and the Supervisory Board and a periodic reporting line to the Risk & Audit committee of the Supervisory Board. The organization, roles and responsibilities of the compliance function are more extensively described in section B.4.2.

- **Internal audit:** The Chief Audit Executive is the function holder for Internal Audit. In line with the requirements, Internal Audit is fully objective and independent from all other functions, reporting directly into the CEO and Supervisory Board Risk & Audit Committee. The organization, roles and responsibilities of the internal audit function are more extensively described in section B.5.

- **Actuarial function:** The function holder is the Head of Model validation team and Underwriting Risk Management and reports to the CRO within the second line of defense. The actuarial function holder has an escalation possibility to the CEO and reports periodically to the Risk & Audit committee of the Supervisory Board. The organization, roles and responsibilities of the Actuarial function are more extensively described in section B.6.

The key functions stated above have the necessary resources to carry out their tasks. Resourcing of staff and other means required to execute control is documented as part of the charters agreed with the Executive Board and the Supervisory Board. Issues in resourcing can be brought forward to the Executive and the Supervisory Board. The necessary operational independence of the key functions is also documented as part of the charters.

B.1.3. Remuneration policy

B.1.3.1. General Information on the remuneration policy and practices

The remuneration policy is centralized at Aegon Nederland level and also applies to Aegon Levensverzekering.

Aegon Nederland pursues a careful, sound and sustainable remuneration policy. As Aegon Nederland has adopted the Regulation on Sound Remuneration Policies (Regeling beheerst beloningsbeleid as issued by DNB), the Aegon Nederland remuneration policy is in line with the requirements stipulated in the regulation.

Aegon Nederland's remuneration policy applies to the Executive Board, management teams, senior management and other employees of Aegon Nederland and subsidiaries and complies with the applicable national and international regulations. The policy is in accordance with the Aegon Group Global Remuneration Framework (AGGRF) drawn up by Aegon N.V. and has due regard for developments in society.

The remuneration policy is in line with the strategy, vision, core values and risk appetite of Aegon Nederland. This means that the level of variable remuneration for employees is discussed in meetings of the Supervisory Board, as well as the financial performance criteria which are applied to variable remuneration. These are adjusted for the estimated risks and cost of capital, whereby the variable remuneration components are in line with Aegon Nederland's long-term objectives.

Regarding the form and timing of payments, the regulation requires a portion of the variable remuneration paid to Material Risk Takers (i.e. members of the Management Team) to be deferred and partially paid in shares.

Variable remuneration is based on performance related to present targets on the following three levels: (i) Aegon N.V., (ii) Aegon Nederland and (iii) personal. The targets are a mix of financial and non-financial performance criteria, which are as objective as possible. The financial criteria were adjusted for estimated risks and cost of capital upon assessment of the actual performance.

Under the governance provisions of Aegon Nederland's remuneration policy, the Supervisory Board is authorized, following the results of an ex-post assessment, to suspend or cancel all or part of the variable remuneration granted conditionally to Identified Staff ('malus clause'). This malus clause on variable remuneration granted conditionally to Identified Staff was not applied in 2020.

The governance provisions in Aegon Nederland's remuneration policy state that the Supervisory Board is authorized to recover variable remuneration previously paid to members of the management team and senior management, if it was granted on the basis of inaccurate financial or other information ('claw back' clause). In 2020, there was no claw back of variable remuneration.

Governance

In accordance with Aegon Nederland's remuneration policy, the Supervisory Board has the following duties and responsibilities: (i) approval of the general principles of the remuneration policy, (ii) regular assessment of the general principles of the remuneration policy, (iii) responsibility for the remuneration policy of the Executive Board, (iv) review of the remuneration of Identified Staff, (v) instructing the Executive Board to implement the remuneration policy and (vi) instructing the Remuneration Steering Group and/or Internal Audit to assess the application of the policy and the procedures covered.

B.1.3.2. Principles of the remuneration policy

Members of the Executive Board as well as other selected jobholders have been defined as ‘Material Risk Takers’ in accordance with new rules, guidelines and interpretations. Of these, the Dutch 2015 Wbfo, the DNB Regulation on Sound Remuneration policies 2014 and the guidelines issued by the European Banking Authority and its predecessor issued under the successive European CRD frameworks (in particular CRD III and IV) are prominent examples. The rules have been adopted in Aegon N.V.’s Global Remuneration Framework and consistently applied within Aegon Nederland in the Aegon Nederland Remuneration Policy. 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 are conditionally granted at the beginning of the year at the average share price 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 Executive Board, Aegon Nederland’s Supervisory Board has the right to reclaim variable compensation that has already been paid out or vested. For members of the Executive Board all variable compensation has vested after three years following the performance period. At vesting, the variable compensation is transferred to the individual employees. Additional holding periods may apply for vested shares. Members of the Executive Board are not entitled to execute any transactions regarding the shares for a period of three years following vesting (with the exception of shares withheld to cover for the payment of any applicable taxes, social security premiums and possible other deductions by the government due for which the company holds a withholding obligation in connection with the vesting of the shares). In compliance with regulations under Dutch law, no transactions regarding the shares may be exercised in closed periods.

B.1.3.3. Share options, shares or variable components of remuneration

Variable remuneration for the Management Team and other Identified Staff were paid 50% in cash and 50% in shares of Aegon N.V..

The remuneration policy and its implementation was discussed in meetings held by the Supervisory Board on several occasions during 2020. In 2020, in accordance with Aegon Nederland’s Remuneration policy, 40% of the 2020 variable remuneration was paid directly to members of the Executive Board of Aegon Nederland and the remaining 60% was conditional. The 60% will be paid in three equal parts over a period of three years, unless an ex-post risk assessment should indicate reasons for lowering the amounts or not pay at all. In 2020, no lowering of the amounts was applied.

With the exception of shares withheld to cover payment of any applicable taxes, social security premiums and/or other possible deductions by the government (for which the company holds a withholding obligation in connection with the vesting of the shares), an additional holding period of three years applies to shares that have vested for the CEO and one or two years for the other members of the Executive Board of Aegon Nederland.

B.1.3.4. Supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders

Members of the Executive Board, Supervisory Board and key function holders are offered pension arrangements and retirement benefits in conformity with the standard Aegon Nederland arrangement. Pension arrangements do not include discretionary elements.

Aegon Levensverzekering does not grant Executive Board members and Supervisory Board members personal loans, guarantees or other such arrangements, unless in the normal course of business and on terms applicable to all employees, and only with the approval of Aegon Nederland’s Supervisory Board.

B.1.4. Disclosure on material transactions

There were no material transactions with members of the Supervisory Board, the Executive Board and/or MTNL.

B.1.5. Material changes in the system of governance

Reference is made to section B1.1 of this SFCR.

B.2. Fit and proper requirements

B.2.1. Requirements for skills, knowledge and expertise

Executive Board

To fulfil their tasks, the specific skills that members of the Executive Board of Aegon Nederland should have at their disposal include: i) Leadership (i.e. ideas, people and change); ii) Strategic thinking and sound judgment; iii) Financial and commercial acumen, particularly around complex and inorganic change activities; iv) Influencing and relationship building; v) Communication; vi) Delivery with clear focus on outcomes; vii) Innovation and problem solving; and viii) Customer-centricity. Moreover, the members of the Executive Board should possess knowledge and experience in the areas of:

1. Strategic understanding of and insight into the financial services industry, with particular emphasis on the challenges and opportunities associated with achieving success for a market leading life and pensions and digitized platform company;
2. Specifically, good understanding of the different regimes associated with Insurance and Investments, including capital management and regulatory frameworks; and
3. Extensive industry and executive management experience in a number of financial, operational and strategic roles – an industry leader respected by regulators, trade associations and government bodies; and Proven ability to lead complex transactions across an organization, including inorganic activity.

Requirements for skills, knowledge and expertise are also reflected in the Executive Board profile which has been drawn up for the Executive Board and which is updated periodically.

Supervisory Board

The Supervisory Board, as a collective, should have qualifications including an international composition; experience with, and understanding of the administrative procedures and internal control systems; affinity with and knowledge of the industry, its clients, its products and services, the financial services market and Aegon Nederland's businesses and strategy; knowledge and experience in (digital) marketing and distribution and the applications of information technology; expertise and experience in digital transformation; experience in the business world, both nationally and internationally; and financial, accounting and business economics' expertise and the ability to judge issues in the areas of risk management, solvency, actuarial currencies and investment and acquisition projects. Requirements for skills, knowledge and expertise are also reflected in the Supervisory Board profile which has been drawn up for the Supervisory Board and which is updated periodically.

Solvency II key function holders

The existing Permanent Education program of Aegon Nederland for key function holders and their direct reports is being strengthened. Aegon Nederland has set up a Permanent Education program that entered into force in 2020. Aegon Nederland has developed this program together with the University of Amsterdam (UvA) and is certified by the UvA.

B.2.2. Process for assessing the fitness and the propriety requirements

In accordance with the Dutch Financial Supervision Act, Aegon Nederland has identified, in addition to the members of the Executive Board and Supervisory Board, those persons that fulfil "key functions". This group of persons concerns the so-called 'second-tier senior officers' (to which fit and proper testing is applicable as stipulated in the Wft), which includes the key functions as referred to in art. 294 (2) of the Solvency II Delegated Regulation. These second-tier senior officers are subject to an internal pre-employment screening prior to their employment within Aegon Nederland in which Aegon assesses their integrity, as well as an assessment of their fitness and suitability for the relevant function. These persons also undergo an integrity assessment performed by the Dutch supervisory authorities prior to their appointment in a key function. Ongoing compliance with fit and proper requirements is a joint responsibility of the respective person as well as Aegon Nederland. Persons that fulfil key functions also undergo an internal fitness assessment process. Within this process the resume of the candidate will be assessed, interviews are held and the skills and expertise of the candidate are checked against the function profile.

Aegon Nederland has a pre- and in-employment screening process in place. Whereas pre-employment screening aims to assess the internal fitness of employees ahead of hiring, in-employment screening aims to periodically reassess the internal fitness during employment. Aegon Nederland facilitates various education programs for Executive Board, Supervisory Board and other key functions.

Executive Board

The members of the Executive Board have broad-based commercial backgrounds and experience in the financial sector in general and in insurance in particular. With this wide range of experience they have the knowledge and fully understand the valuable function of insurance companies in society and are making their decisions in the interests of all Aegon Nederland's stakeholders. Each member of the Executive Board 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 Nederland faces.

All members of the Executive Board have been made subject to fit and proper testing by the DNB, prior to their appointment and fulfil these requirements on an ongoing basis. The members of the Executive Board are also subject to an internal pre-employment screening prior to their employment within Aegon Nederland in which Aegon Nederland assesses their integrity, as well as an assessment of their fitness and suitability for the relevant function within the Executive Board.

The knowledge of the members of the Executive Board 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. The ongoing 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 its decisions, the Executive Board 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.

Supervisory Board

Individual members of the Supervisory Board will be assessed on the basis of personal qualifications including: managerial experience and skills at the highest levels; experience with large listed companies; understanding of a global business; entrepreneurial attitude; sound business judgment, common sense and decisiveness; independence and a sufficiently critical attitude with regard to the other Supervisory Board members and the Executive Board and international orientation and outside experience.

All members of Aegon Nederland's Supervisory Board have been made subject to fit and proper testing by DNB prior to their appointment and fulfil these requirements at an ongoing basis.

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 a 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 of the Executive Board 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 Executive Board signed the ethics statement as required in the Principles and requirements of DNB's Suitability Policy Rule 2012 (Beleidsregel geschiktheid 2012). They also took the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations.

B.3. Risk management system including the own risk and Solvency assessment

B.3.1. Risk management system

ERM is a framework, which is designed and applied to manage risk in creating, preserving and realizing value that may affect Aegon Nederland. ERM builds on the current level of risk management that exists in the normal course of business. The aim is to manage risk within Aegon Nederland's risk tolerance in order to provide reasonable assurance regarding the achievement of Aegon Nederland's objectives.

For Aegon Nederland, ERM involves:

1. Understanding which risks the company is facing;
2. Establishing a firm wide framework through which the maturity of risk management practices can be monitored;
3. Establishing risk tolerances, and supporting policies, for the level of exposure to a particular risk or combination of risks;
4. Monitoring risk exposure and actively maintaining oversight over the company's overall risk and solvency positions.

The ERM framework is based on the international accepted standard COSO ERM and lays the foundation for managing risk throughout Aegon Nederland's operations. Aegon Nederland's subsidiaries must adhere to Aegon Nederland's ERM framework and be able to demonstrate compliance to the extent, nature and size that is appropriate to the organization. The ERM framework applies to all material businesses of Aegon Nederland for which it has operational control.

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	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	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	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.
Risk Assessment	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	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.
Risk Reporting (& Monitoring)	Compliance with the risk tolerance statements and the risk policy requirements is monitored and reported on a periodic basis to senior management. Through a formal Risk and Audit Committee and Risk and Capital 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. Risk control is further supported by a strong risk culture and effective compliance risk management. 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.

Implementation of risk management system

The Risk Management Function is headed by the Risk management function holder in the position of the CRO. For a visual overview we refer to the illustration below. The Risk Management Function is responsible for advising the Executive Board and Supervisory Board on the assessment and definition of the Risk Appetite and the risk tolerance levels, and to advise the Executive Board on the mitigation or acceptance of both risk events (incidents) and risk based upon impact analysis. Furthermore, the Risk Management function supports the management teams to raise awareness on Risk Appetite and established good business practices and in identifying, assessing and overseeing the mitigation of risks.

The Risk Management function reports periodically and, if needed, ad hoc, on risk matters that require the attention of the Executive Board. These reports include, as a minimum, exceeded risk tolerance levels and unacceptable business practices. The CRO reports each quarter on topics such as incidents and other information about risks, and meets with the Supervisory Board Risk and Audit Committee at least four times a year. Immediate reporting is required regarding significant incidents and are sent to both the next higher level within the Risk Management Function and simultaneously to the responsible business manager. If required by external rules or supervisors they also report the incidents to the external supervisor. The CRO has an escalation reporting line to the Supervisory Board (Risk & Audit Committee) and a functional reporting line to the Group CRO.

The CRO is head of the Risk Management Function, the Risk Managers and other staff reporting to the CRO. These include the Risk Managers appointed as such and working within Aegon for its relevant business segments (e.g. retail and wholesale) those working for Aegon Nederland subsidiaries (e.g. Aegon Bank N.V. and TKP Pensioen B.V.). To ensure a consistent approach within the entire organization all aforementioned Risk Managers meet regularly. In addition to this the Risk Managers for the aforementioned business lines meet periodically.

The Risk Management Function operates independently from the business, this is established using the following principles:

1. The Risk Management Function has a formal status, which is stated and communicated through the Risk management charter;
2. Risk Managers report to the CRO via head of ORM and head of FRM;
3. The CRO has a functional reporting line to the Group CRO in accordance with the responsibility matrix and consultation process set forth in the Group Risk Management Charter;
4. A Risk Manager, in particular the CRO, is not placed in a position where possible conflict of interest may occur between risk responsibilities and any other responsibilities; and
5. The Risk Management Function staff is entitled to have access to the information and personnel necessary to carry out their responsibilities.

B.3.2. Solvency II PIM Governance

The governance of Aegon Nederland's Solvency II Partial Internal Model (PIM) is fully integrated in Aegon Nederland's risk management system and governance structure. Aegon Nederland's methodology for assessing risks includes the Solvency II PIM and is used to measure and aggregate risks and to calculate the Solvency Capital Ratio. Changes in the PIM models are called major or minor model changes based on their materiality. Minor changes are reviewed by the Risk Management & Compliance department, major changes are validated by the Model Validation team. After approval is obtained, the proposed methodology is first presented to the Assumptions and Methodology Committee (AMC). Depending on the magnitude of the impact of the change, further stages in the governance may be required (e.g. approval from the Risk and Capital Committee (RCC), approval from groups Enterprise Risk Management Actuarial and Accounting Committee (ERMAAC)). This is defined in the charters of each committee.

Next to methodologies, a similar governance holds for models and / or tools. In this case the Finance Change Board (FNCB) fulfils the same role as the AMC.

The tasks and responsibilities of the FNCB are to support Management Team Finance in managing operational, process and IT changes with respect to (changes in) models for valuation and assumption settings and capital management. The AMC is responsible for preparing proposals for decision making by the RCC on Framework, Methodology and Assumption changes. The RCC performs the management of financial risks, capital and associated expected return, in order to maintain a strong capital position and supports the Aegon Nederland strategy.

PIM Validation process

All Solvency II PIM models have been independently validated as part of the Internal Model Application Process in 2015. After passing the initial validation, the models are part of the regular validation program in which models are subject to validation on a rolling basis to secure ongoing appropriateness.

In addition to the validation of individual models, the Solvency II PIM is also subject to a top-down analysis as part of the overarching validation performed by the Model Validation function. The overall purpose of the overarching validation is to provide an independent assessment of the overall appropriateness of the Solvency II PIM as adopted and used within Aegon Nederland. The overarching validation of the Solvency II PIM is updated annually. There were no material changes to the internal model governance during the reporting period.

B.3.3. Own risk and solvency assessment

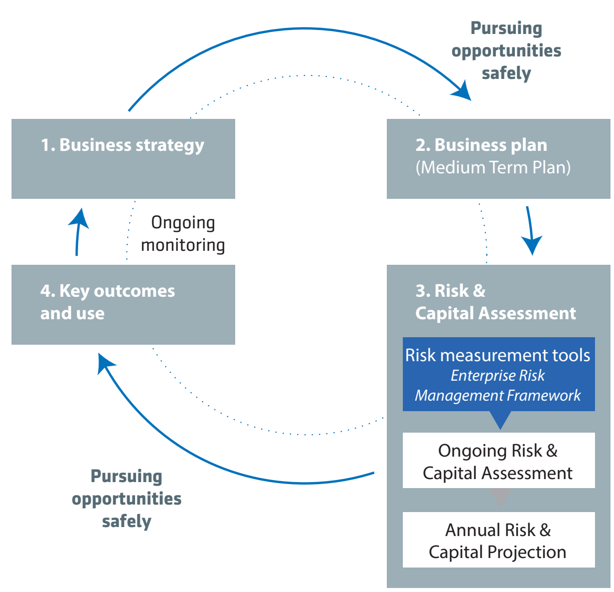
The Own Risk and Solvency Assessment ('ORSA') is a key internal process with key elements of the capital management and risk management processes, which support the business in pursuit of fulfilling its business strategy. The ORSA is presented and reviewed at least annually. Key sections are updated as required throughout the year following changes in risk profile. This helps management to anticipate potential capital needs and take appropriate action.

The ORSA is an annual process, which builds on the existing risk and capital management and business planning processes across the Aegon Nederland-group. The frequency of the ORSA process may increase if there is reason for such increase. The ORSA unites these processes under a single framework, ensuring key business decisions are based on an internal assessment of risk and associated capital requirements. It connects and aligns risk and capital management, business planning, and strategic decision making processes, and delivers the "ORSA outcomes" (from "Solvency II" Directive 2009/138/EC, Article 45(1)) namely:

- "the assessment of overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;
- the compliance, on a continuous basis, with the capital requirements and with the requirements regarding technical provisions; and
- the comparison of the risk profile with the assumptions underlying the SCR and internal model."

A graphical overview of the ORSA process is provided below. The process is iterative and subject to on-going monitoring to ensure the ORSA responds to major changes impacting the business;

1. The business strategy for Aegon Levensverzekering is set. The financial strategy for Aegon Levensverzekering must be set to support the business strategy;
2. The business plan combines the business and financial strategy to calculate key results;
3. The risk & capital assessment must include the identification, measurement, management and monitoring of risk. The capital needs of the business must be considered taking account of the proposed strategy and the acceptable level of the associated risks in pursuit of that strategy. The assessment must take into account both the present and the future. Aegon Levensverzekering's Partial Internal Model and Economic Framework are key tools used in the measurement and quantification of risk. The output from the business strategy, financial strategy, business plan and the risk and capital assessments (together the Budget MTP) must be used in the decision making process;
4. "Use" applies across a spectrum of areas including Asset & Liability Modelling, product development and pricing.

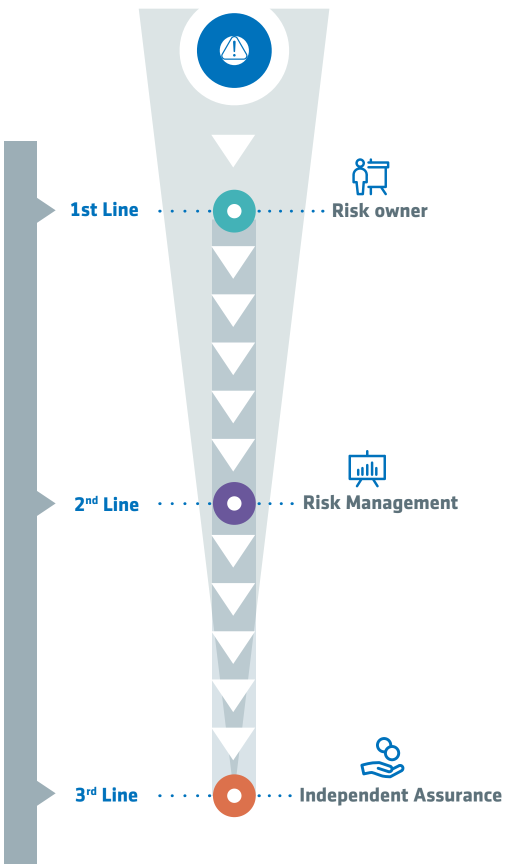


All of the above is evidenced and documented in Aegon Levensverzekering's annual ORSA report.

B.4. Internal control system

B.4.1. Internal control system

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



The three lines of defense are represented by the following: 1) risk owners, 2) risk managers, and 3) independent assurance. The overall responsibility for risk management lies with the Executive Board. The application of the three lines of defense structure enables a professional risk culture where risk management can be optimally embedded within the business.

First line of defense: First line of defense: Risks naturally arise out of Aegon Levensverzekering's business activities, in particular through the sales and administrative processing of insurance policies and balance sheet and capital management. Business management is directly responsible for the processes on which achievement of the company's objectives depends. They are responsible for risk identification, risk assessment and, especially, the control of all material risks in their area of activity, consistent with applicable risk tolerances and risk policies.

Second line of defense: The risk functions and committees, being the second line of defense, facilitate and oversee the effectiveness and integrity of ERM across the company. They facilitate ERM by developing, maintaining, and supporting the implementation of risk governance, risk tolerances, risk policies, risk methodology and risk management information. The role of the second line is also to oversee policy compliance, to maintain objectivity in business decisions and to challenge business management in this context. Risk policy breaches and excessive risk taking are escalated as needed. In this regard, the CRO has the authority to defer Risk & Capital Committee decisions that can have a material adverse impact on the company's solvency, liquidity or operations to Board meetings. In addition to those mentioned above, second line of defense is also responsible for model validations.

Third line of defense: Audit along with its committees provide the third line of defense and is a function directed by and accountable to the Executive Board, principally through its Risk and Audit Committee. It is independent of senior management, which has responsibility for the first and second lines of defense, and is therefore able to provide independent assurance opinions on the effectiveness of the systems of internal control and risk management.

B.4.2. Implementation of the compliance function

Within its mission it is the purpose of the Compliance Function to advise the Executive Board and the Supervisory Board on the assessment and definition of the Compliance Risk Appetite and related risk tolerance levels, and to advise the Executive Board on the acceptance of specific risk events based on impact analysis. Furthermore, the Compliance function supports management by raising awareness of Compliance Risk Appetite, established good business practices, and by identifying, assessing and overseeing the mitigation of Compliance Risks.

The Compliance Function consists of the Chief Compliance Officer and all Compliance Officers and other staff reporting to the Chief Compliance Officer. These include the compliance officers appointed as such and working within Aegon Nederland for all organizational business units (segments), and those working for Aegon Nederland subsidiaries. Furthermore, the Conduct Risk team and the Regulatory Office/Watchtower report to the Chief Compliance Officer. To ensure a consistent approach within the entire organization the aforementioned Compliance Officers and the other teams reporting to the Chief Compliance Officer meet regularly to coordinate.

All Compliance and Data Protection Officers at Aegon Nederland, including the Compliance and Data Protection Officers of the Aegon Nederland subsidiaries, have a functional reporting line to the Chief Compliance Officer. The Chief Compliance Officer has an escalation reporting line to the Supervisory Board (Risk & Audit Committee) and to the Global Head of Regulatory Compliance and Global Head of Operational & Conduct Risk Management. Furthermore, the Chief Compliance Officer is entitled to investigate or have investigated (independently or on its behalf) compliance with this Charter by performing Compliance monitoring activities. The Chief Compliance Officer reports each quarter to the Management Board, through the CRO, on the topics mentioned above and meets with the Supervisory Board and/or or the Risk & Audit Committee at least four times a year.

The Compliance Function shall be independent from the business, which is established using the following principles:

1. The Compliance Function has a formal status, which is stated and communicated through this Charter;
2. A Compliance Officer, in particular the Chief Compliance Officer, is not placed in a position where possible conflict of interest may occur between compliance responsibilities and any other responsibilities; and
3. The Compliance Function staff are entitled to have access to the information and personnel necessary to carry out their responsibilities.

B.5. Internal audit function

B.5.1. Implementation of the internal audit function

Aegon Nederland's Internal Audit Function ("Internal Audit") assists the Executive Board, the Risk & 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. Aegon Nederland has implemented the 'three lines of defense model'. The (line) management control is the first line of defense. Risk management, the risk control and compliance over-sight functions are the second line of defense, and independent assurance is the third line of defense. As part of this assurance Internal Audit recommends improvements which are agreed with management and pursues corrective actions on identified issues until implementation.
Additionally, Internal Audit executes advisory services related to the evaluation and improvement of the management control environment of Aegon Nederland. When providing advisory services, Internal Audit needs to maintain operational independence. Opportunities to strengthen the existing management control environment, effectiveness and Aegon Nederland's reputation may be identified during all our activities. Internal Audit derives its authority from their respective Boards and is authorized to examine the internal controls, risk management and governance processes in all areas of Aegon Nederland.

B.5.2. Independence of the internal audit function

Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditors' International Professional Practices Framework. The purpose, objectives and responsibilities of the Internal Audit function of a Country Unit and of Group Internal Audit function are covered in the Internal Audit Charter and are aligned with the (inter)national professional auditing standards. Internal Audit avoids any conflicts of interest and accesses the expertise and knowledge necessary to undertake work in respect of specialist business functions.

Internal Audit does not execute any operational duties for Aegon Nederland and will not review a business area or function in which they have had recent management or operational responsibility or are otherwise conflicted. The Aegon Nederland Chief Audit Executive reports to the Chief Executive Officer. To ensure the independence of the auditors and effective governance, the Aegon Nederland Chief Audit Executive has a reporting line to the Group Chief Audit Executive, as well as to the respective Country Unit Risk and Audit Committee and to the Supervisory Board.

B.6. Actuarial function

The Actuarial Function Holder is positioned under the statutory board member who directs the department of Risk & Compliance, also the Chief Risk Officer (CRO). The AFH operates independently from the first line functions and other functions and reports (and escalates if necessary), next to the CRO, also periodically to the Executive Board, to the Risk & Audit Committee of the Supervisory Board and to the Global Chief Actuary.

Aegon Nederland implemented various “actuarial roles” 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.

B.7. Outsourcing

Aegon Nederland has outsourced certain critical and/or important operational functions or activities related to front-, mid- and back-office processes. As stated earlier all employees working at Aegon Levensverzekering are employed at and have a labor contract with Aegon Nederland. This also means that Aegon Levensverzekering has outsourced the key functions to Aegon Nederland.

Outsourcing may affect business exposure to operational risk through material changes to, and reduced control over, people, processes and systems used in outsourced activities. Aegon Nederland has developed and formalized an outsourcing Risk Policy to ensure that outsourcing arrangements entered into by Aegon Nederland which can result in material risk are subject to appropriate due diligence, approval and on-going monitoring. All material risks arising from outsourcing activities should be appropriately managed to ensure that Aegon Nederland is able to meet both its financial and service obligations. The outsourcing risk policy will be further enforced and strengthened due to the implementation of the third party risk management policy.

The policy applies to all entities and business units of Aegon Nederland, including arrangements where Aegon Nederland has a controlling interest in other business units and entities. Furthermore, both outsourcing arrangements with vendor/suppliers and internal outsourcing arrangements within a business unit or between business units of Aegon Nederland are in scope of this policy. Aegon Nederland has implemented the policy to ensure that outsourcing activities that can result in material risk are managed and under supervision of Aegon Nederland.

B.8. Any other information

All relevant information is covered in the previous sections.

C. Risk profile

This section is outlined as follows. The first subsection describes the risk assessment and measurement, sensitivity analyses and risk concentrations in general. The second subsection discusses the Prudent Person Principle, which relates to Market, Credit, Liquidity and Operational risk.

In subsections C.1 through C.5, more detailed information is provided on Underwriting, Market, Credit, Liquidity and Operational risk, respectively.

Finally, subsection C.6 comments on other risks and uncertainties.

General

Risk Assessment and Measurement: the Solvency Capital Requirement

The assessment of Aegon Levensverzekering's risk profile forms part of the ERM framework, which is discussed in section B.3. Within this framework, risk policies provide specific operating guidelines for Aegon Levensverzekering's risk governance and risk tolerance statements. Aegon Levensverzekering complies with the risk policies of both Aegon Group and Aegon Nederland. The Aegon Nederland risk policies are tailored to fit local circumstances and therefore entail additional restrictions compared to the Group policies.

Within the ERM Framework, risk exposures are identified and quantified using Aegon Levensverzekering's PIM. The PIM, which has been developed in close cooperation with Aegon Group, has been validated by Aegon Nederland's Risk Function and approved by Aegon Levensverzekering's supervisor DNB. The main output of the PIM is the SCR. The SCR is the minimum level of Eligible own funds (hereafter: own funds) required in accordance with Solvency II legislation to absorb unexpected developments in all risk exposures of Aegon Levensverzekering combined. It serves to ensure that obligations to policyholders can be met with a very high degree of certainty. When available own funds are in excess of the aggregate SCR, Aegon Levensverzekering will be able to meet obligations to policyholders with a likelihood of at least 99.5% over a period of one year.

The PIM contains separate modules for Market Risk, Counterparty Default Risk, Underwriting risk, and Operational Risk. A separate SCR is determined for each of them. Major risks within the PIM are assessed using an internally developed model. For the other risks, the Solvency II standard formula is applied.

The table below shows the components and the structure of Aegon Levensverzekering's PIM, the amounts of the main risk types and whether the components have been developed internally or are based on the Solvency II standard formula.

Amounts in € million	Components description	**2020**	2019
C.3 Market risk	Market risk (SF)	761	1,071
	Market risk (IM)	2,016	1,819
C.3 Credit risk	Counterparty default risk (SF)	119	108
	Counterparty default risk (IM)	-	-
C.2 Underwriting risk	Life underwriting risk (SF)	999	860
	Life underwriting risk (IM)	2,175	1,597
	Health underwriting risk (SF)	-	-
	Health underwriting risk (IM)	-	-
	Non-life underwriting risk (SF)	-	23
	Non-life underwriting risk (IM)	-	-
C.5 Operational risk	Operational risk (SF) including De Hoop	316	300
	Operational risk (IM)	-	-
E.2 Solvency Capital Requirement	Diversification	-/- 2,469	-/- 2,020
	LAC Deferred Taxes	-/- 457	-/- 539
	Total SCR	**3,459**	**3,219**

Mitigating effects of diversification between risks, as well as the loss absorbing capacity of deferred taxes (LAC DT) are taken into account in the aggregate SCR. Diversification exists as the degree to which different risks are related to one another is, in many cases, limited. As a result, the likelihood of severely adverse developments of all risks occurring within the same year is extremely remote. The impact of diversification is measured separately within the PIM. Further explanation on the LAC DT and diversification is provided in Section E.2.1.

Furthermore, with regards to the methodology to derive the SCR, it should be noted that:

- The SCRs for Underwriting, Market, Credit and Operational risk include the exposures to these risks in the remaining Aegon Vastgoed subsidiaries, AMVEST joint ventures and Direct Lending B.V. The so-called 'look through' approach ensures assessment of the risks within these subsidiaries on a consistent basis with the exposures directly held by Aegon Levensverzekering.
- The risks related to other, smaller participations (as listed in section A) are included as Market risks, based on a reduced value of the participation in an adverse scenario.
- For Liquidity Risk, no SCR has been determined, as the Liquidity Risk policy ensures that sufficient liquidity is available with a very high degree of certainty over a period of two years. Liquidity risk is discussed further in section C.4.

Solvency Ratio, Sensitivity Analysis & Stress Testing

The Solvency ratio is the main indicator of the ability of Aegon Levensverzekering to meet all its obligations to policyholders and other stakeholders, as and when they fall due. It is defined as follows:

Solvency ratio = Own Funds / SCR

The own funds are the assets of the company, valued according to Solvency II principles, in excess of all obligations to policyholders as well as other liabilities that are not subordinated. Own funds, SCR and Solvency ratio as of December 31, 2020 are shown below.

Table : Own Funds & SCR

Amounts in € million	Own funds	SCR	**Solvency Ratio December 31, 2020**
Solvency Ratio	5,507	3,459	159%

The current Solvency ratio of 159% indicates that Aegon Levensverzekering operates in its target range of the SCR as specified in Aegon Levensverzekering's Capital Management policy. Further details about this policy and the composition of the own funds can be found in chapter E.

In addition to the derivation of the SCR, Aegon Levensverzekering performs sensitivity analyses and stress testing on a regular basis to assess the impact of the scenarios considered in these tests.

Sensitivity Analyses

Sensitivity analyses are performed on a bi-annual basis. For a part of the market and mortality scenarios, including all sensitivities described below, a quarterly analysis is performed. In these analyses, the impact of instantaneous changes of external factors related to various risk types on Aegon Levensverzekering is assessed. For each sensitivity analysis, the immediate impact on Aegon Levensverzekering's Solvency ratio as per year end 2020 is as follows:

Table: Overview of sensitivity analyses

Scenario	**Change to Solvency ratio in Scenario**
5% decrease in Mortality rates	-/- 10%
Interest rate curve + 0.5%	-/- 8%
Interest rate curve -/- 0.5%	9%
20 - 30 curve steepening +0.1%	-/- 9%
25% increase in Equities	1%
25% decline in Equities	-/- 5%
Credit spreads – Non-Gov + 0.5%	-/- 10%
Credit spreads – Non- Gov -/- 0.5%	9%
Credit spreads – Gov + 0.5%	-/- 2%
Credit spreads – Gov -/- 0.5%	3%
Mortgage spreads + 0.5%	-/- 6%
Mortgage spreads -/- 0.5%	6%
EIOPA VA +5 bps	1%
EIOPA VA -/- 5 bps	-/- 1%
Loss Absorbency Factor -/- 25%	-/- 11%
UFR down to 3.60%	-/- 6%

The methods and outcomes of the sensitivity analyses are described in more detail by risk type in the next sections.

Extreme Event Scenarios

Aegon Levensverzekering develops extreme events scenarios on an annual basis. These scenarios are based on the position of Aegon Levensverzekering on 30 June of each year, and form part of the Own Risk and Solvency Assessment (ORSA). The ORSA process is further discussed in section B.

In the extreme event scenarios, the impact of extreme but plausible scenarios is determined over a multi-year business planning period. Scenarios considered are for example a severe recession, adjustments to the Volatility Adjustment (VA) and the Ultimate Forward Rate (UFR), improvement of life expectancy and changes in laws and regulations.

In each scenario, the impact on net earnings, own funds, SCR and Solvency ratio is analysed, taking into account the mitigating impact of management actions or other applicable measures.

Risk Concentrations - Identification & Approach

Aegon Levensverzekering considers a Risk Concentration to be either one of the following types of exposure:

- A relatively high exposure to a single risk within a portfolio of risks. An example is a loan with a high amount to a single counterparty;
- An exposure to a large number of risks that exhibit a high degree of correlation with one another. An example is the outbreak of an epidemic that may cause a large number of deaths simultaneously.

Specific attention to concentration risk is needed in case its impact is not already reflected in the SCR, or another risk assessment method, of the risk type where it manifests itself. In this case, an additional amount of SCR for Concentration Risk may be required. If no SCR for the risk in question is accounted for, additional consideration must be given in case concentrations are not reflected in the original risk assessment.

The potential occurrence of risk concentrations is further discussed below in the sections on each of the main risk types: C.1. Underwriting Risk, C.2. Market Risk, C.3. Credit Risk, C.4. Liquidity and C.5. Operational risk.

Prudent Person Principle

The prudent person principle ensures that assets are managed on behalf of policyholders or other stakeholders in a prudent manner, and covers aspects that relate to market, credit, liquidity and operational risk.

Mandates for investments for own account and for account of policyholders are set out in internal guidelines of Aegon Levensverzekering, in order to ensure that prudent person principles are satisfied. Besides that, each investment program is tested on several criteria and authorized by the Risk & Capital Committee (RCC).

The investment mandates section of the Standard of Practice paper ensures that the prudent person principles are satisfied when relevant. The risks on the investment side are presented in Risk Reporting with more detailed reporting performed by Aegon Asset Management. Aegon's Risk Appetite Framework is in place to ensure that the assets held are appropriate to the nature of the liabilities without taking on excessive risks:

- Risk limits for market and financial risks are set and form part of the Aegon Risk Appetite Framework;
- The Investment and Counterparty Risk Policy establishes the prudent person principle requirements;
- Concentration in exposures is avoided by testing adverse plausible scenarios in the Budget/MTP process and by setting single counterparty limits in the Group Credit Name Limit Policy. This is supplemented with the Focus List that provides a more proactive process to monitor and control concentration;
- The requirements related to use of derivatives can be found in the Derivative Use Policy. This policy ensures that a consistent standard of responsible derivative usage is in place across the Aegon Group. In addition, the consolidated reporting of derivative positions provides transparency to derivative usage as well as a demonstration of controls;
- The Securities Lending and Repo Policy ensures a consistent standard for Securities Lending and Repurchase (Repo) programs within the Aegon Group. This Policy sets out the minimum required processes and documentation standards that must be in place for any unit to operate in these instruments; and
- The Reinsurance Use Policy establishes the process with which reinsurance use is conducted at Aegon in order to ensure a consistent high standard of reinsurance use across the Group, to ensure proper internal controls are in place around risks arising from reinsurance wherever material (e.g. counterparty risk and basis risk), and to ensure globally consistent information on Aegon's reinsurance treaties is available.

The requirements related to the use of derivatives are specified in the Derivative Use Policy. Key principle here is that derivative programs should be documented and are used for risk mitigation purposes. In general, Aegon Levensverzekering manages the asset allocations to prudent levels on the basis of ALM and risk management frameworks.

The prudent person principle requires specific attention to be paid to assets that are not traded on regulated financial markets. In this category, mortgages are particularly relevant, as they form a major asset class in which, Aegon Levensverzekering holds investments. Within the Aegon Netherlands holding, of which Aegon Levensverzekering forms part, mortgage loans have been originated and serviced for over thirty years. Consequently, considerable expertise exists within Aegon Netherlands in these areas.

In addition, the prudent person principle requires that specific attention be given to illiquid assets. Illiquid assets held by Aegon Levensverzekering, including mortgages, form a good match with the illiquid profile of Aegon Levensverzekering's liabilities. As such, these assets provide an excellent risk-return trade-off for Aegon Levensverzekering and its policyholders.

C.1. Underwriting risk

C.1.1. Description of the measures used to assess underwriting risks

Underwriting risk, sometimes referred to as "insurance 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.

The material underwriting risks for Aegon Levensverzekering are mortality/longevity risk, policyholder behavior risk and expense risk.

Mortality/longevity risk

Mortality risk arises from economic losses due to mortality levels deviating from their expected levels (when mortality is lower than expected, this is referred to as longevity). Policyholders are typically grouped into different classes and each class is expected to have the same mortality rates. Best estimate assumptions are then determined for each policyholder class. Aegon is exposed to the risk that the best estimate assumptions are inaccurate.

Aegon Levensverzekering's insurance portfolio contains policies that are at risk if mortality increases, such as term life insurance and policies that are at risk if mortality decreases (longevity risk) such as annuity and pension products.

Policyholder behavior risk

Policyholder behavior risk arises from economic losses due to policyholder behavior deviating from expectations. 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 deviates 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 that anticipated, including early redemption rates, thus impacting the value of the mortgage portfolio.

In general, Aegon Levensverzekering 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 unchanged from best estimate assumptions). The risk therefore corresponds to an increase in the total expenses spread among the same number of policies – i.e., the per policy expenses increase. It is effectively the change in the best estimate expense assumption given a 1-in-200-year expense event.

Most expenses Aegon Levensverzekering 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.

Underwriting risk assessment

Aegon Levensverzekering monitors and manages its underwriting risk by underwriting risk type. Attribution analyses are performed on earnings and reserve movements to understand the source of any material variation in actual results compared to expectations. Aegon Levensverzekering also performs experience studies for underwriting risk assumptions, comparing Aegon Levensverzekering's experience and industry experience as well as combining Aegon Levensverzekering's experience and industry experience based on the depth of the history of each source for use in Aegon Levensverzekering's underwriting assumptions. Where policy charges are flexible in products, Aegon Levensverzekering uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon Levensverzekering also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

C.1.2. Risk Concentrations

In addition to the risk tolerance limits as described in Chapter B.3, it's common practice to address 'concentration' of risk on insured lives, using a risk limit per individual life (or joint lives). The exposures on a few lives with a much higher risk than the average in the portfolio can create too high a 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.

C.1.3. Risk mitigation techniques used for underwriting risks

Aegon Levensverzekering 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 Levensverzekering's insurance obligations.

Reinsurance

Aegon Levensverzekering reinsures part of its insurance exposure with third-party reinsurers under traditional indemnity and 'excess of loss' contracts. Reinsurance helps Aegon Levensverzekering to 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. Furthermore, a reinsurance contract is in place with Canada Life Re. since year end 2019 for the pension's annuity portfolio, covering pensioners in payment and deferred beneficiaries.

Hedges

Aegon Levensverzekering aims to hedge a substantial part of its longevity risk through a comprehensive longevity hedge program. The ambition is driven by Aegon Levensverzekering's own risk appetite. A longevity hedge is in place to mitigate exposure to longevity risk. Please note that the longevity hedge has not yet been incorporated within the PIM used to set the SCR, pending completion of the approval process. While the hedge is not yet reflected in the SCR, the hedge does provide 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.

C.1.4. Risk sensitivity for underwriting risks

The main underwriting risk Aegon Levensverzekering is exposed to, is longevity risk, i.e. the risk that life expectancy improves and policyholders will live longer. As a result, policyholders who are entitled to pension benefits after retirement, will receive these benefits during 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, the impact of a 5% decrease of mortality rates by age cohort in all future years is analyzed, including coverage of pension as well as death benefits. The impact on the Solvency ratio is shown below.

Scenario	**Change to Solvency ratio**
Mortality rates -/- 5%	-/- 10%

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 the value of own funds declines. The SCR will also increase, as the total risk exposure increases in line with the increase in future benefits to policyholders. In total, the Solvency ratio declines by 10%-points.

C.2. Market risk

C.2.1. Description of the measures used to assess market risks
As a life insurance company, Aegon Levensverzekering is exposed to a variety of risks. Aegon Levensverzekering's largest exposures are to changes in financial markets (e.g. fixed-income market, equity market, interest rate risk and credit risk relating to investments). When market prices fall, the value of Aegon Levensverzekering's investments is reduced. For certain products, Aegon Levensverzekering's insurance liabilities may also increase, as investments held for the benefit of policyholders reduce in value. In addition, the value of future fee income potential reduces. The cost of insurance liabilities is also determined with reference to interest rates and the liabilities associated with long term benefits (such as annuities) increase and decrease as interest rates fall and rise.

To align with the SCR in QRT S.25.02 and section E, we only discuss Counterparty Default Risk (as defined in the Delegated Regulation) in section C.3. More generally, we consider the term ‘credit risk’ to also include spread risk, migration risk and default risks, and market concentration risk related to financial investments. To align with QRT S.25.02 throughout the SFCR, these other components of credit risk are discussed in this section.

Further explanations of the material market risk components are provided below.

Credit risk

Internally Aegon considers credit risk to consist of the following three components:

- **Spread risk;** the risk that the value of bonds reduces due to a general widening of credit spreads;
- **Migration risk;** the risk that the rating of bonds fall due to an increased risk of default and as a consequence their value falls; and
- **Default risk;** the risk that the counterparty fails to meet agreed obligations.

For general account products, Aegon typically bears the risk for investment performance and is exposed to credit risk in the fixed income portfolio and over-the counter (OTC) derivatives.

Aegon is also indirectly exposed to credit risk on separate account investments held for the benefit of policyholders. Credit losses reduce account values, leading to lower fee income to Aegon. For certain products, Aegon has also provided guarantees to protect customers against the risk of losses in the separate account. For these benefits Aegon is directly exposed to separate account credit losses.

Interest rate risk (Mismatch risk)

Aegon Levensverzekering bears interest rate risk in 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.

Aegon is exposed to interest rate risk, as both its assets and liabilities are sensitive to movements in long- and short-term interest rates. The majority of Aegon Levensverzekering’s products are long-term in nature and consequently low interest rates or high interest rate volatility may adversely affect Aegon Levensverzekering´s profitability and shareholders´ equity. It is also the case that a steepening of the interest rate curve could have negative consequences for Aegon Levensverzekering. For example, in such a scenario surrenders and withdrawals may increase. This activity may result in cash payments by Aegon requiring the sale of invested assets at a time when the prices of those assets have fallen due to the increase in market interest rates.

Currency risk

Aegon Levensverzekering 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 much as possible.

Equity market risk and other investments risk

A decline in equity markets may adversely affect Aegon Levensverzekering’s profitability and shareholders’ equity, sales of savings and investment products, and the amount of assets under management. Declining market values of equity investments may constitute a risk for both Aegon and its customers. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investments in which Aegon bears all or most of the volatility in returns and investment performance risk. The existence of direct equity risk is very limited, as defined by Aegon Levensverzekering’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. Lower investment returns also reduce the asset management fee that Aegon 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 Levensverzekering's insurance business have minimum return or accumulation guarantees that require Aegon 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 again result in a significant decrease in the value of Aegon's equity investments.

Deterministic adjustment

In 2020 Aegon Levensverzekering has identified improvements to its internal model that mitigate volatility caused by the basis risk between the EIOPA VA reference portfolio and its own asset portfolio. These improvements were implemented for year-end reporting and they will be in place until changes arising from the Solvency II review are enacted. The Deterministic adjustment has been included in QRT S.25.02 under Market risk as a separate risk type.

C.2.2. Risk Concentrations

Concentration of market risks could occur in case relatively high amounts are invested in a single security, or where a collection of highly correlated investments is held. Aegon Levensverzekering specifically manages concentration risk within the investment portfolio to mitigate concentration risks. Where concentrations risks exist nonetheless, an additional amount of SCR is determined.

C.2.3. Risk mitigation techniques used for Market risks

Aegon Levensverzekering has generally positive income benefits from equity market increases and negative impacts from equity market declines as it earns fees on policyholder account balances and in certain cases provides minimum guarantees for account values. Hedging of exposures may change those effects significantly and equity hedges are used extensively to manage the equity market risk related to products with guarantees that have underlying equity funds.

Aegon Levensverzekering sets a limit on equity risk. Hedging programs are in place that are designed to manage the risks within these defined limits. Equity hedge programs use equity options to provide protection against the impact of equity market declines.

Aegon Levensverzekering employs sophisticated interest rate measurement techniques. Fixed income assets along with interest rate swap and swaption derivatives are used extensively to manage the interest rate risk exposure. Aegon Levensverzekering sets a limit on interest rate risk. All derivative use is governed by Aegon's Derivative Use Policy.

Aegon Levensverzekering sets a limit on currency risk. Aegon Levensverzekering does not engage in direct currency speculation or program trading and any assets or liabilities not in the functional currency of the business are hedged back to that currency. In any case where this is not possible or practical, the remaining currency exposure is controlled by limits on total exposure.

Aegon Levensverzekering manages credit risk exposure by individual counterparty, sector and asset class, including cash positions through its ERM framework as described in section B.3 Risk management system. Different exposures are mitigated with derivatives as described below.

Credit risk mitigation

Aegon Levensverzekering mitigates credit risk in derivative contracts by entering into a credit support agreement, where practical, and in ISDA master netting agreements. The counterparties to these transactions are investment banks that are typically rated 'A' or higher. The credit support agreement generally dictates the threshold over which collateral needs to be pledged by Aegon Levensverzekering or its counterparty.

Transactions requiring Aegon Levensverzekering or its counterparty to post collateral are typically the result of derivative trades, comprised mostly of interest rate swaps, equity swaps, currency swaps, credit swaps and other bilateral exposure derivatives. Collateral received is mainly cash. The credit support agreements that outline the acceptable collateral require high quality instruments to be posted.

C.2.4. Risk Sensitivity for Market risks

For Market Risk, the following sensitivity tests are performed on a quarterly basis with respect to credit spreads, interest rates and equity prices.

Increase (decrease) of interest rates by 0.5% point

Interest rates used for the valuation of assets are increased (decreased) by 0.5% through a parallel shift across the entire yield curve. Assets affected include bonds, loans, mortgages, and derivatives. Derivatives form part of Aegon Levensverzekering's hedge program to mitigate interest rate risk.

For technical provisions, only interest rates for maturities up to 20 years are increased (decreased) by 0.5%. For technical provisions with maturities longer than 20 years, interest rates converge from the increased (decreased) 20-year rate to a fixed rate derived from the UFR of 3.75%. Liabilities other than the technical provisions are not affected.

The impact of these scenarios is shown below.

Scenario	**Change to Solvency ratio in Senario**
Interest rate curve + 0.5%	-/- 8%
Interest rate curve -/- 0.5%	+ 9%

Interest rate risk is driven by the mismatch between interest rate sensitivities of assets and interest rate sensitivities of liabilities on the savings and pension business. Interest rate risk is partially offset by the interest rate hedge program.

In a decreasing interest rate scenario, the residual interest rate mismatch will have a positive impact on the own funds. The positive impact offsets the increase of the SCR. Interest rates have a large impact on the SCR for spread risk because both the market value and the duration are affected. These two effects reinforce each other.

In an increasing interest rate scenario, the residual interest rate mismatch will have a negative impact on the own funds. Interest rates have a large impact on the SCR for spread risk because both the market value and the duration are affected. These two effects reinforce each other. When interest rates increase, we see a decrease in SCR. The positive impact of a lower SCR offsets the decrease in the own funds.

20 - 30 curve steepening +0.1%

In the interest rate steepening scenario the asset valuation curve is shocked with +0.1% after the last liquid point. The steepening is applied for maturities between 20 and 30 years through a linear increase from 0 to +0.1%. A steepening of the curve has a negative impact on Own Funds as a result of the impact on the valuation of the assets. The steepening does not have any effect on the valuation of the Solvency II liabilities, as the last liquid point of the Solvency II curve is at 20 years.

The impact of the scenario's is shown below.

Scenario	**Change to Solvency ratio in Senario**
20 - 30 curve steepening +0.1%	-/- 9%

Increase (decrease) in Equity prices by 25%

In these scenarios, an overall increase (decrease) of all equities on the balance sheet of Aegon Levensverzekering is assumed. Aegon Levensverzekering is exposed to equity risk arising from its own equity investments, the unit-linked portfolio with guarantees and fee income that depends on the amount of unit-linked assets. Both the equity exposure of guarantees and fee income are part of the investment hedge program.

In an increasing equity scenario, the residual mismatch risk on listed equity arising from the unit-linked portfolio and the gains on (mainly) private equity investments will have a positive impact on own funds.

In a decreasing equity scenario, both the residual mismatch risk on listed equity arising from the unit-linked portfolio and the losses on (mainly) private equity investments will have a negative impact on own funds. The guarantee provision will increase as a result of lower asset value and as a consequence the capital requirement for investment risks (mainly spread risk) will be higher.

The impact of the scenario's is shown below.

Scenario	**Change to Solvency ratio in Senario**
Equities + 25%	+ 1%
Equities -/- 25%	-/- 5%

Sensitivity to Non-Government Credit Spreads

In this scenario, the credit spreads on mortgage loans, other loans and bonds excluding government bonds, increase (decrease) by 0.5%-point. The increase in credit spreads results in a lower value of the mortgages, corporate bond and loan portfolios. The SCR will decrease as the exposure decreased due to higher spreads.

The net impact of higher own funds and lower SCR leads to a decrease in the Solvency ratio by 10%-points. In a scenario where credit spreads decrease by 0.5%-point, an opposite impact can be observed.

Scenario	**Change to Solvency ratio in Senario**
Credit Spreads–Non-Gov + 0.5%	-/- 10%
Credit Spreads–Non-Gov -/- 0.5%	+ 9%

Sensitiviy to Government Spreads

In this scenario, the spreads on government bonds increase (decrease) by 0.5%-point. The increase in spreads results in a lower value of the government bonds. The SCR will decrease as the exposure decreased due to higher spreads.

The net impact of lower own funds and lower SCR leads to a decrease in the Solvency ratio by 2%-points.

Scenario	**Change to Solvency ratio in Senario**
Credit Spreads – Gov + 0.5%	-/- 2%
Credit Spreads – Gov -/- 0.5%	+ 3%

Sensitivity to Mortgage Credit Spreads

In this scenario, credit spreads on mortgage investments increase (decrease) by 0.5%-point. All other assumptions, including the VA that impacts the liabilities, remain unchanged given that the composition of this VA is not dependent on mortgage spreads.

In a scenario where mortgage spreads increase by 0.5%-point, own funds decline due to a lower value of the mortgage portfolio. The SCR also decreases as the impact of the SCR shock is applied to a lower base value. As a result, the Solvency ratio declines by 6%-points. In a scenario where mortgage spreads decrease by 0.5%-point an opposite impact can be observed.

Scenario	**Change to Solvency ratio in Senario**
Mortgage Spreads + 0.5%	-/- 6%
Mortgage Spreads -/- 0.5%	+ 6%

Sensitivity to EIOPA VA

In this scenario, the EIOPA VA increases (decreases) by 5 basis points. All other assumptions remain unchanged.

The change in the EIOPA VA significantly affects technical provisions. As a consequence, the Solvency ratio increases when the EIOPA VA increases and decreases when the EIOPA VA decrease. The absolute impact on Solvency ratio is 1%-points in both.

Scenario	**Change to Solvency ratio in Senario**
EIOPA VA + 5 bps	+ 1%
EIOPA VA -/- 5 bps	-/- 1%

C.3. Credit risk (Counterparty Default Risk)

C.3.1. Description of the measures used to assess credit risks

To align with the SCR in QRT S.25.02 and chapter E, we only discuss Counterparty Default Risk (as defined in the Delegated Regulation) in section C.3. More generally, we consider the term ‘credit risk’ to also include spread risk, migration risk and default (market risk concentration) risk relating to financial investments. To keep this alignment with QRT S.25.02 consistent throughout the SFCR, these other components of credit risk are discussed instead in section C.2 Market risk.

Counterparty default risk mainly covers exposure to risk mitigating contracts (such as reinsurance), cash at bank and receivables for which capital is calculated under the standard formula.

C.3.2. Risk Concentrations

Concentration within Counterparty Default risk could occur in case relatively high amounts are outstanding with a single counterparty, or if default risks of many counterparties are highly correlated.

An important measure to avoid concentration within Counterparty Default risk is to diversify and limit exposure to individual issuers. More specifically, Aegon Levensverzekering has put in place a policy to limit the aggregate exposure to any single counterparty. Exposures are monitored on a weekly basis and any potential violations of exposure limits must be reduced on short notice. Concentration in exposures are managed by setting limits on risk types and single counterparties, by testing extreme scenarios in the Budget/MTP process.

As a result, no Risk Concentrations within Counterparty Default Risk have been identified at December 31, 2020.

C.3.3. Risk mitigation techniques used for Counterparty Default risks

Counterparty risk embedded in derivatives transactions are contained with strong collateral processes that Aegon Levensverzekering has put in place in all of its derivatives, through the use of high-quality collateral. Central clearing for parts of the derivatives markets has increased the collateral requirements and reduced counterparty risk.

C.3.4. Risk sensitivity for Counterparty Default risks

Given the relatively small amount of the SCR for Counterparty Default Risk, no specific sensitivities have been determined.

C.4. Liquidity risk

C.4.1. Description of the measures used to assess liquidity risks & sensitivity testing

In normal circumstances, a significant proportion of the investment portfolio can be quickly converted into cash. However, it may not be possible to sell some part of the asset portfolio, such as private loans, mortgage loans, real estate and holdings in unlisted enterprises at a reasonable price on short notice, if necessary.

Events that may have a sudden, adverse impact on available liquidity include the following:

- Large change in interest rates;
- Large change in credit spreads;
- Insolvency of a counterparty, credit facility or bank where current accounts are held; and
- Credit downgrade of Aegon N.V. or Aegon Levensverzekering.

Furthermore, circumstances can arise in which liquidity/cash/ funding in the market becomes scarce.

Aegon Levensverzekering operates a liquidity risk policy that focuses on holding sufficient highly liquid assets so that liquidity requirements can be met both in normal market conditions and under extreme conditions resulting from unforeseen circumstances.

This policy aims to ensure that sufficient liquidity exists in the asset portfolio to provide for timely payment of all potential cash demands under both normal business conditions and under extreme conditions resulting from unforeseen events. The liquidity tests quantitatively measure the ability of Aegon Levensverzekering to meet all potential cash demands.

Stress Testing for Liquidity Risks

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.

The stress scenario develops over a two-year period. Extreme withdrawals of liabilities occur as a result of an immediate major downgrade of both Aegon Nederland’s long term financial health and short-term credit rating. Furthermore, assets suffer an immediate capital market shock resulting in an inability to sell investments other than ‘highly liquid’ ones, over a one-year period. Assets and liabilities experience an instantaneous upwards shock to the risk-free interest rate by 1.5%-points, which increases linearly to 3%-points after exactly one year. In addition, the value of non-highly liquid investments decreases further as a result of a credit spread shock of 1.5%-points.

In this scenario, available liquidity remains in excess of required liquidity over the entire two-year period. The following table shows available and required liquidity, prior to occurrence of the stress scenario at the end of 2020, and the liquidity up to and including the end of 2022 after the occurrence of the stress scenario.

	December 31, 2020	December 31, 2020 Stress scenario	**December 31, 2022 Stress scenario**
Available Liquidity	18,580	15,441	30,620
Required Liquidity	1,477	9,173	17,687
Excess Liquidity	17,103	6,268	12,933

Compared to year end 2019 the required liquidity did not change materially. The available liquidity on the short term decreased as a consequence of a changes in the asset allocation (less cash and more credit investments) and increased on the long-term as credit investments redeem and generate more income than cash.

C.4.2. Risk Concentrations

The described stressed liquidity scenario can be regarded as a concentration with respect to liquidity risk. The liquidity risk policy requires that sufficient liquid assets are available in this scenario.

C.4.3. Risk mitigation techniques used for liquidity risks

In 2018, two liquidity facilities were established with third parties. One of these facilities is rate contingent (triggered if the swap rate increases at least by 150 bps. over a one-month period). Both facilities will only be used in case of a liquidity stress event. The facilities were established to facilitate the transition of the asset portfolio to partly more illiquid assets. The facilities provide an extra of € 1 billion buffer of excess liquidity. The facilities are still active in 2020. There are no additional measures undertaken in 2020.

C.4.4. Expected Profit in Future Premiums (EPFIP)

EPIFP reflects the current value of the net cash flow expected to arise from in-force contracts until the end date of each contract. Note that the EPIFP is determined only for contracts where such a value is positive. EPIFP forms part of the technical provisions of Aegon Levensverzekering, where a positive EPIFP value of leads to a reduction of the total technical provisions. A high value of EPIFP could impact liquidity, as future profits are not available in cash at present. As the total amount of the Expected Profit in Future Premiums (EPIFP) amounts to € 381 million at year end 2020, the impact on the liquidity position is limited. Note that this value does not reflect derivatives contracts that have been put in place in previous years to hedge against the risk of low interest rates.

C.4.5. Risk sensitivity for liquidity risks

The sensitivity to liquidity risk is tested using the stressed liquidity scenario described above. The result of the calculation of the stressed liquidity scenario contains the separate components that contribute to liquidity use in such a scenario. This gives insight in the sensitivity of the liquidity position to these separate components. Besides the described stressed liquidity scenario additional sensitivities for that scenario are also tested. The sensitivities tested comprise of the most material liquidity risks for Aegon Levensverzekering.

C.5. Operational risk

C.5.1. Description of the measures used to assess operational risks

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes and controls, people and systems or from external events. These definitions highlight the four causes of operational risk events: (1) external events; (2) inadequate or failing processes and controls; (3) people; and (4) systems.

The SCR for Operational risk is determined in line with the standard formula under Solvency II. It is based on volumes of premiums, technical provisions and expenses, distinguishing between index and unit-linked, and other business. Additional measures have been developed internally for the day-to-day management and assessment of Operational risks.

Aegon Levensverzekering has identified eight risk event categories in line with the Aegon risk universe. This risk event categorization also supports the preparation of operational risk reporting and analysis that can be interpreted meaningfully across Aegon Group as it defines a common language for the group. The defined categories of Operational risk are:

Table: Types of Operational risk

Risk Type	Description
Legal and Compliance risk	Legal and compliance risk is the risk that losses occur due to non-voluntary legal liabilities, inadequate legal documentation, inadequate patenting of brands and intellectual property, and the risk of impairment to the organization's business model, reputation, integrity and financial condition, resulting from failure to comply with laws, regulations and internal company rules and policies, as well as late identification of significant legal and regulatory developments, possibly resulting in an inability to influence the final outcome.
Processing risk	Processing risk is the risk of losses due to inadequate or failing administrative processes and related internal controls, capturing of source data, reporting errors, modeling errors and failing outsourcing and supplier arrangements.
Business risk	Business risk is the risk of losses due to failed or inadequate strategy execution, marketing and sales practices, distribution channels, pricing, investment returns, handling of customer complaints, or late reaction to changes in the business environment.
Tax risk	Tax risk is the risk of losses due to fiscal authorities challenging Aegon Levensverzekering's tax treatment of transactions on technical grounds or as a result of inconsistent argumentation, imperfections in the tax planning, concentration risk and late identification of significant tax developments in relevant jurisdictions, possibly resulting in an inability to influence the final outcome.
Financial crime risk	Financial crime risk is the risk of losses due to a wrongful act, omission, breach of duty or trust, intentionally performed by an employee, intermediary or external party, which potentially could or results in a disadvantage to Aegon Levensverzekering or another.
People risk	People risk is the risk of losses due to inadequate or failing employee practices (including discrimination, wrongful termination, and sexual harassment) and consideration for employees' health and well-being, including workplace safety.
Facility risk	Facility risk is the risk of losses due to inadequate or failing physical asset management (including physical security incidents and inefficient procurement) and events causing damage to physical assets (vandalism, water damage, fire, explosions, etc.).
Systems risk	Systems risk and business disruption risk the risk of losses due to inadequate or failed business continuity planning, back-up and recovery, fallback arrangements, information security, IT maintenance and change management, identification of relevant technological developments and other technical causes for systems related failures and errors.

Operational risk is inherent to Aegon Levensverzekering's business and may manifest itself in many ways, including business interruption, poor vendor performance, information systems malfunctions or failures, regulatory breaches, processing errors, modeling errors, and/or internal and external fraud. These events may result in financial loss, harm Aegon Levensverzekering's reputation, or hinder Aegon Levensverzekering's operational effectiveness.

Aegon Levensverzekering's approach to operational risk assessment is based on scenario analysis. Aegon Levensverzekering utilizes this approach for internal monitoring and quantification of operational risk. Risk identification takes place through periodic Risk (& Control) Self Assessments (RSAs or RCSAs) to get an understanding of business objectives and identification of operational risks for realizing these objectives.

C.5.2. Risk Concentrations

Operational risk concentration can occur where specific risk exposures are in excess of operational risk appetite. Aegon Levensverzekering's management maintains a well-controlled environment and sound (conduct) policies and practices to control these risks and keep operational risk at appropriate levels. Operational risk capital (ORC) is held on the basis of the economic framework model and is determined annually. Operational risk for Aegon is dominated by the following material risk concentrations:

- Legal, regulatory, conduct & compliance; and
- Processing risk.

Legal, regulatory, conduct & compliance risk

ORC is held on the basis of potential but unlikely extreme loss events such as punitive damages issued by a court resulting from accusations of corporate misconduct, substantial changed legislation due to regulatory regime change, or inability to enforce policy terms. Further details are provided in Section D.5.

Processing risk

ORC is held on the basis of potential but unlikely extreme loss events such as a material financial misstatement, non-payment of claims by reinsurer, modelling errors, or failure of an outsourcing partner.

C.5.3. Risk mitigation techniques used for operational risks

Operational risks at Aegon are mitigated by maintaining a strong risk control framework and culture. Please refer to section B.4.2 for a detailed description of the compliance OCRM risk framework. All operational risks that are assessed as exceeding the set risk tolerance levels require management to determine a risk response in terms of accepting, controlling, transferring or avoiding risks.

No specific risk mitigation techniques, in the form of contracts with third parties, are currently in place for Operational risk exposures, nor under consideration for purchase.

C.5.4. Risk sensitivity for Operational risk

Stress testing and sensitivity analysis for Operational risk are performed in the form of scenario analyses as described above.

C.6. Other Material Risks

Aegon Levensverzekering has identified a number of uncertainties that may have a material impact on the valuation of its obligations and the level of the SCR in the near future. These are not included in the descriptions of the separate risk types. The identified uncertainties are:

1. Adjustments to the LAC DT;
2. Adjustments to the UFR.

C.6.1. Loss Absorbing Capacity of Deferred Taxes

An indirect risk that is considered by Aegon Levensverzekering is an adjustment to the LAC DT, as explained at the beginning of this chapter. In the following scenario, the impact of a reduction of the LAC DT factor by 25%- points is shown.

Scenario	**Change to Solvency ratio in Scenario**
Loss Absorbency Factor -/-25%	-/- 11%

In this scenario, own funds are not affected as no loss or change in value of assets or liabilities is assumed. Only the SCR increases as a result of the reduced recoverability of taxes in case a large loss were to occur. As a result, the Solvency ratio declines by 11%-points.

C.6.2. Adjustment of the Ultimate Forward Rate

The UFR is the risk-free interest rate over a one-year period that is expected after an extremely long period, i.e. after 60 years. It is used in combination with market observed interest rates up to 20 years, to derive interest rates for maturities longer than 20 years.

The current UFR of 3.75% has been set by the European Insurance and Occupational Pensions Authority ("EIOPA"). It is based on historically observed real interest rates in combination with long term inflation expectations. In 2017, EIOPA proposed a gradual adjustment of the UFR over a number of years, including a decrease to 3.60% in 2021.

In the scenario shown below, the impact of an immediate adjustment of the UFR from its current level of 3.75% to 3.60% is quantified.

Scenario	**Change to Solvency ratio in Scenario**
UFR down to 3.60%	-/- 6%

The reduction of the UFR leads to a reduction in own funds due to higher insurance obligations. At the same time, the overall SCR increases as a result of the increase in insurance obligations. In total, the ratio of own funds over SCR decreases by 6% points in the UFR down to 3.60% scenario.

C.7. Any other information

Over the course of 2020, the Coronavirus (COVID-19) outbreak has caused significant disruption to society, impacting Aegon, its employees, suppliers and customers. Financial markets were severely impacted in the first half of 2020, by significant decreases in interest rates, equity markets and commodity prices, and by credit spreads widening. Governments and central banks worldwide have responded to this crisis with aid packages and further quantitative easing. Alongside related market volatility, there is general uncertainty on how the pandemic will play out and the continued economic impact it will have. Given the extraordinary circumstances due to the COVID-19 pandemic, Aegon's key priority is to protect the health, safety and security of its employees, and fulfil its responsibilities towards its stakeholders.

Aegon is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 pandemic, and its impact on Aegon. The most significant financial risks Aegon faces are related to financial markets (particularly credit, equity, and interest rates) and to a lesser extent underwriting as Aegon Levensverzekering is especially exposed to longevity risk. Chapter C includes elaborate descriptions and related financial market and underwriting sensitivities.

Alongside related market volatility, there is general uncertainty on how the pandemic will play out and the continued economic impact it will have. There is currently insufficient credible experience with which to update actuarial assumptions for COVID-19 specifically. Going forward, Aegon Levensverzekering expects that there will be COVID-19 related deaths allowing the release of reserves for its Pension business.

D. Valuation for Solvency Purposes

In chapter D, the valuation for Solvency purposes is disclosed and the differences compared to the valuation under IFRS in the annual report will be addressed. The balance sheet is that of Aegon Levensverzekering on a stand-alone basis, in line with Solvency II regulations concerning disclosure of QRT 02.01. The overall balance sheet under Solvency II and under IFRS statutory reporting is shown below.

Table: Balance Sheet (in € million)

Assets	**Section**	**Solvency II value**	**Statutory accounts value**
Deferred acquisition costs		-	136
Deferred tax assets	D.1.2.1	61	35
Investments (other than assets held for index-linked and unit-linked contracts)	D.1.2.2	42,483	42,117
Property (other than assets for own use)	D.1.2.3	1,858	1,858
Holdings in related undertakings, including participations	D.1.2.4	1,688	1,688
Equities	D.1.2.5	-	918
Bonds	D.1.2.6	23,333	23,046
Collective Investments Undertakings	D.1.2.7	5,763	4,845
Derivatives	D.1.2.8	9,840	9,760
Assets held for index-linked and unit-linked contracts	D.1.2.9	24,695	24,515
Loans and mortgages	D.1.2.10	22,972	19,957
Reinsurance recoverables	D.2.7	-/- 353	7
Deposits to cedants		3	3
Insurance and intermediaries receivables		114	114
Reinsurance receivables		0	0
Receivables (trade, not insurance)	D.1.2.11	551	954
Cash and cash equivalents	D.1.2.12	2,687	2,687
Any other assets, not elsewhere shown	D.1.2.13	3	3
Total assets		**93,218**	**90,527**

Liabilities	Section	Solvency II value	Statutory accounts value
Technical provisions - life (excluding index-linked and unit-linked)	D.2.3	42,025	44,279
Technical provisions - life (excluding health and index-linked and unit-linked)	D.2.3	42,025	44,279
Insurance with profit participation		18,666	-
Best estimate life with options and guarentees		1,258	-
Best estimate life without options and guarantees		20,157	-
Risk margin		1,944	-
Technical provisions - life (excluding health and index-linked and unit-linked)	D.2.3	33,900	26,594
Best estimate index-linked and unit-linked with options and guarantees		27,605	-
Best estimate index-linked and unit-linked without options and guarantees		4,926	-
Risk margin		1,370	-
Provisions other than technical provisions		6	6
Derivatives	D.2.3	4,591	6,581
Financial liabilities other than debts owed to credit institutions	D.3.1.1	5,461	5,462
Insurance & intermediaries payables	D.3.1.2	319	319
Reinsurance payables	D.3.1.3	49	317
Payables (trade, not insurance)	D.3.1.4	509	493
Subordinated liabilities	D.3.1.5	600	600
Any other liabilities, not elsewhere shown	D.3.1.6	-	39
Total liabilities		**87,460**	**84,690**
Excess of assets over liabilities		**5,757**	**5,837**

The difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities is explained in section E.1.3.

D.1. Assets

The overview in table below shows the value of assets by material asset class under Solvency II and IFRS statutory reporting.

Table: Total Assets (in € million)

Assets	Section	Solvency II value	Statutory accounts value	Difference
Deferred acquisition costs		-	136	-/- 136
Deferred tax assets	D.1.2.1	61	35	26
Investments (other than assets held for index-linked and unit-linked funds)	D.1.2.2	42,483	42,117	366
Property (other than for own use)	D.1.2.3	1,858	1,858	-/- 0
Holdings in related undertakings, including participations	D.1.2.4	1,688	1,688	0
Equities	D.1.2.5	-	918	-/- 918
Bonds	D.1.2.6	23,333	23,046	287
Collective Investments Undertakings	D.1.2.7	5,763	4,845	918
Derivatives	D.1.2.8	9,840	9,760	80
Assets held for index-linked and unit-linked contracts	D.1.2.9	24,695	24,515	181
Loans and mortgages	D.1.2.10	22,972	19,957	3,015
Reinsurance recoverables	D.2.7	-/- 353	7	-/- 360
Deposits to cedants		3	3	-/- 0
Insurance and intermediaries receivables		114	114	-/- 0
Reinsurance receivables		0	0	0
Receivables (trade, not insurance)	D.1.2.11	551	954	-/- 403
Cash and cash equivalents	D.1.2.12	2,687	2,687	-/- 0
Any other assets, not elsewhere shown	D.1.2.13	3	3	0
Total assets		**93,218**	**90,527**	**2,691**

D.1.1. Solvency II valuation

In this section, the valuation under Solvency II is described per main asset class. Where the valuation method or classification differs between IFRS and Solvency II, a qualitative and quantitative explanation is provided per asset category.

In accordance with Solvency II regulations, figures are based on fair value. To ensure consistency with Aegon Levensverzekering's annual report, fair value under IFRS and market value under Solvency II is the same.

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). A fair value measurement assumes that the transaction to sell the asset takes place:

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

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

- **Level I:** quoted prices (unadjusted) in active markets for identical that Aegon Levensverzekering can access at the measurement date;
- **Level II:** inputs other than quoted prices included within Level I that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets) using valuation techniques for which all significant inputs are based on observable market data; and
- **Level III:** inputs for the asset 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 judgement used in measuring the fair value of assets generally negatively correlates with the level of observable valuation inputs. Aegon Levensverzekering 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 as a consequence little judgment has to be used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have little observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

The asset categorization within the fair value hierarchy is based on the lowest level that is significant to the fair value measurement.

The evaluation as to whether a market is active may include, although is not necessarily limited to, 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, ensuring high reliability of the fair value measurements. However, certain assets are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets the derivation of fair value is more judgmental. An instrument is classified in its entirety and valued using significant unobservable inputs (Level III) if a significant portion of the instrument's carrying amount is driven by unobservable inputs. "Unobservable" in this context means that little or no current market data are available from which the price at which an transaction at arm's length would be likely to occur can be determined. It generally does not mean that no market data are 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 Levensverzekering, individual financial and non-financial instruments 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 modeled). 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.

D.1.2. Differences between Solvency II and IFRS valuation per asset class

In this section of the report, the valuation bases under Solvency II and IFRS annual reporting (2020) of the material asset classes and the reconciliation are discussed. The value of the assets is disclosed in the balance sheet at the beginning of Chapter D.

D.1.2.1.Investments (other than assets held for index-linked and unit-linked funds)

The Solvency II methodology for the calculation of deferred taxes follows the provisions of IAS 12 in the financial statements. 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. A tax asset is recognized for tax loss carry forward to the extent that it is probable at the reporting date that future taxable profits will likely be available against which the tax losses and tax credits can be utilized.

Deferred tax assets and liabilities are reviewed at the balance sheet date and are measured at tax rates that are expected to apply when the asset is realized, or the liability is settled. Since no absolute assurance can be granted that these assets will ultimately be realized, management reviews Aegon Levensverzekering's deferred tax positions periodically to determine whether it is probable 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 business expected to provide future earnings. Furthermore, management considers the tax-planning strategies it can utilize to increase the likelihood that the tax assets can be realized. These strategies are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectation of Aegon Levensverzekering concerning the manner of recovery or settlement.

The deferred tax assets related to temporary differences do not have an expiry date, as Aegon makes sufficient profits to counteract possible future losses linked to the deferred tax assets. Furthermore, the deferred tax assets on the balance sheet of Aegon Levensverzekering are offset by the deferred tax liabilities which are incorporated in its subsidiaries. The run-off of the deferred tax assets of Aegon Levensverzekering is largely in line with the run-off of the technical provisions. After reversion of the deferred tax liabilities a remaining amount of the deferred tax asset is substantiated through probable future taxable profits as Aegon makes sufficient profits to counteract possible future losses linked to the deferred tax assets.

Reconciliation difference IFRS to Solvency II:

IFRS to Solvency II reconciliation of deferred tax items should comprise of DTA and DTL adjustments reflecting the tax impact of all the individual revaluations processed for all components of Balance Sheet. The Solvency II balance sheet contains a Deferred Tax Asset position of € 61 million. The IFRS balance sheet contains a Deferred Tax Asset position of € 35 million.

The revaluation of the DTA (€ 26 million) from IFRS to Solvency II mainly relates to the tax on the 'IFRS – Solvency II revaluation items':

- Tax on the revaluation of Loans and mortgages (-/- € 734 million);
- Tax on the revaluation of the Technical provisions (€ 810 million);
- Tax on the revaluation of other smaller items (-/- € 50 million.

The weighted average applicable statutory tax rate for Aegon Levensverzekering in 2020 was 21.7% to anticipate the tax rate lowering per 2021. As this planned tax rate lowering is reversed (as announced on "Prinsjesdag"), the tax rate will increase towards 25% in 2021.

D.1.2.2. Investments (other than assets held for index-linked and unit-linked funds)

If financial assets are valued at amortized cost under IFRS, insurers will need to convert them to fair value under Solvency II. This requirement is particularly relevant for financial instruments that are classified as Held-to-maturity or Loans and receivables under IAS39. The fair value measurement is applicable.

The Solvency II balance sheet contains an investment position of € 42.5 billion. The IFRS balance sheet contains an investment position of € 42.1 billion. Differences will be explained in the next sections.

General account investments comprise financial assets excluding derivatives as well as investments in real estate.

Financial assets, excluding derivatives

Financial assets, excluding derivatives, are recognized on the trade date when Aegon Levensverzekering becomes a party to the contractual provisions of the instrument. They 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: 1) financial assets held for trading; 2) financial assets managed on a fair value basis in accordance with the investment strategy of Aegon Levensverzekering; and 3) financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Levensverzekering 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 Levensverzekering 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, for other reasons than 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 excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Loans and financial assets held-to-maturity 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.

The effective interest rate method is a method for calculating the amortized cost and 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.

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.

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 an active market exists, the fair value equals 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 compared to 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 and when Aegon Levensverzekering retains the right to receive cash flows from the asset or has an obligation to pay 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 Levensverzekering has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Aegon Levensverzekering continuing involvement. If significantly all risks are retained, the assets are not derecognized.

On derecognition, the difference between the proceeds from disposal 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.

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.

D.1.2.3. Property (other than for own use)

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 to five years and reviewed at least once a year by qualified internal appraisers to ensure the value correctly reflects the fair value at the reporting 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 rented to a third party.

The Solvency II balance sheet contains a property position of € 1.9 billion which is equal to the position on the IFRS balance sheet.

D.1.2.4. Participations

The Solvency II balance sheet contains a participation position of € 1.7 billion which equals the participation position on the IFRS balance sheet.

D.1.2.5. Equities

Solvency II and the IFRS balance sheets both measure equities at fair value. Equities are € 0.9 billion lower on the Solvency II balance sheet due to reclassification to Investment funds.

D.1.2.6. Bonds

The Solvency II and the IFRS balance sheets both measure bonds at fair value. The Solvency II balance sheet contains bond positions of € 23.3 billion. The IFRS balance sheet contains bond positions of € 23.0 billion. The Solvency II balance sheet is € 287 million higher (namely Government Bonds). The valuation is the same, the only difference is a reclassification of accrued interest from Any other assets.

D.1.2.7 Collective Investment Undertakings

The Solvency II and the IFRS balance sheets both measure Investment funds at fair value.

The Solvency II balance sheet contains an investment funds position of € 5.7 billion. The IFRS balance sheet contains an investment funds position of € 4.8 billion. Investment funds are € 0.9 billion higher on the Solvency II balance sheet which is due to a reclassification from Equities.

Investment funds managed by Aegon Levensverzekering, in which Aegon Levensverzekering holds an interest, are consolidated in the financial statements if Aegon Levensverzekering has power over that investment fund and 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 Levensverzekering in the fund are considered, regardless of whether the financial risk related to the investment is borne by Aegon Levensverzekering or by the policyholders.

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

Participations in investment funds held for general account are recognized as equity investments. Some of these 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 that are measured using the equity method are regarded as part of the investment portfolio.

D.1.2.8. Derivatives

Solvency II and the IFRS balance sheet both measure derivatives at fair value.

The Solvency II balance sheet and the IFRS balance sheet contain an asset derivatives position of € 9.8 billion. There is a difference of € 80 million mainly due to the reclassification of accrued interest from Any other assets.

D.1.2.9. Assets held for index-linked and unit-linked contracts

IFRS does not distinguish between index-linked and/or unit-linked funds. 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 which are backing liabilities towards third parties.

Investments for account of policyholders are valued at fair value through profit or loss.

The Solvency II balance sheet contains a position of € 24.7 billion. The IFRS balance sheet contains a position of € 24.5 billion.

The Solvency II Balance sheet is € 181 million higher due to two items:

- Reclassification of -/- € 18 million due to a regulatory split in Solvency II between policyholder assets and policyholder liabilities to Receivables and Payables;
- Revaluation of loans and mortgages (amortized cost) in separate accounts to fair value of € 199 million. This is related to the revaluation of loans and mortgages relating to the pension scheme of Aegon personnel.

D.1.2.10. Loans and mortgages

Loans and mortgages are measured at amortized cost in the financial statements. Under Solvency II fair value measurement is required.

Mortgages

The valuation methodology for mortgage loans includes the following procedures:

1. Projection of future cash flows of mortgages loans;
2. Determination of the interest rate curve to use for discounting; and
3. Net present value (NPV) calculation.

In this approach, cash flows for each mortgage loan part in Aegon's portfolio are projected separately, based on product characteristics, mortgage rates and interest reset dates. Aegon's methodology recognizes four mortgage cash flow profile types, being: Interest only, Annuity, Linear and Savings mortgages.

Cash flows are adjusted for expected early repayments (also known as prepayments). The rate of early repayments follows from a model calibrated with historical data. Cash flows of non-performing loans are adjusted based on their estimated probability of default and loss given default.

The interest rate curve used for discounting is determined by applying a spread curve over the risk-free yield curve, which varies over the maturity of the term structure. The spread curve applicable to each mortgage loan part is dependent on the Loan to Value and remaining time until the next interest reset date.

The spread is derived from the most recent, most competitive consumer mortgage rates observed in the market, after deduction of a 'Margin Earned', which serves to cover the risks and expenses of originating the mortgage portfolio. The consumer rate minus the Margin Earned reflects the yield that an external investor would be able to obtain when investing in mortgage loans.

The method described above for obtaining the spread is also known as a top-down approach. The prevailing consumer rate is determined as the single average of the mortgage rates offered by the top three providers in the market after filtering for representative mortgage products (not including Aegon affiliated entities), for a particular Loan to Value and duration.

For the purpose of valuation, it is assumed that each mortgage will be redeemed at the next interest reset date of that mortgage, i.e. at the date at which the mortgage provider can reset the interest rate and the mortgagee can terminate the contract without a penalty.

The assumption that all mortgages will be terminated at the first interest reset date will, generally speaking, lead to some degree of underestimation of the value of a portfolio. As interest rates can be set or reset to a profitable level at the interest reset date, profits occurring after this date are not included in the valuation. This assumption is made nonetheless, as mortgagees do not have a contractual obligation to continue their mortgage after the interest reset date and can exit without a penalty.

The estimated rate of prepayment is compared annually against actual prepayment rates for verification, and the prepayment rate in the valuation is updated accordingly.

Prevailing consumer rates are collected by an external party on a weekly basis. The mortgage valuation spreads are updated monthly on the basis of the latest consumer rates.

The Margin Earned, which is deducted from the consumer rate to derive the discount rate, is benchmarked against mortgage fund fees of Aegon Asset Management. The margin is verified annually on the basis of the most recent data.

The valuation of the mortgage portfolio is based on a number of factors that are not known precisely or may change over time, creating a degree of uncertainty. Main uncertainties relate to the rate of early repayments, and the dependence of the valuation on mortgage rates offered by other providers in the market.

Loans

Fair value measurement of loans on policies, IC loans and other loans on the Solvency II balance sheet is based on amortized cost measurement on the IFRS balance sheet. The fair value of floating interest rate mortgage loans, policy 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.

Fair value of private loans is based on an internal valuation model. On a monthly basis, the Dutch government curve and additional spreads are received and used as input for matrix pricing. The curves per sector are uploaded into the system. Based on private loan characteristics and classifications, the system selects the appropriate curve and yield per security. Via the net present value ("NPV") component combining yields and security cash flow the system calculates prices via interpolation where bid, mid and ask are populated with the same price.

Reconciliation between IFRS and Solvency II: Adjustments of Loans and Mortgages

The Solvency II balance sheet is € 3.0 billion higher than the IFRS balance sheet due to the revaluation of Loans and Mortgages to fair value of € 3.0 billion and a reclassification of -/- € 130 million in accrued interest from Any other assets.

D.1.2.11. Receivables (trade, not insurance)

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.

Solvency II balance sheet is € 403 million lower mainly due to the following:

- A reclassification of accrued interest to Investments (-/- € 450 million);
- A reclassification of the reinsurance contract with Canada Life Re. covering a substantial part of the Pensions annuity book (€ 3 million). For more information on this reclassification refer to section D.2.7;
- A reclassification from Assets held for index-linked and unit-linked contracts (€ 44 million) explains the remainder of the difference.

D.1.2.12. Cash and cash equivalents

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.

The Solvency II balance sheet contains a cash and cash equivalents position of € 2.7 billion which is equal to the position on the IFRS balance sheet.

D.1.2.13. Any other assets, not elsewhere shown

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.

The position on the Solvency II balance sheet is equal to the position on the IFRS balance sheet.

D.2. Technical provisions

D.2.1. Technical provisions analyzed by each material line of business
The table below shows the Solvency II and IFRS (statutory) liabilities at year end 2020 (in € million).

Table: Total Technical Provisions (in € million)

Liabilities	Section	Solvency II value	Statutory accounts value	Difference
Technical provisions - life (excluding index-linked and unit-linked)	D.2.3	42,025	44,279	-/- 2,254
Technical provisions - life (excluding health and index-linked and unit-linked)	D.2.3	42,025	44,279	-/- 2,254
Insurance with profit participation		18,666		
Best estimate life with options or guarantees		1,258		
Best estimate life without options and guarantees		20,157		
Risk margin		1,944		
Technical provisions - index-linked and unit-linked	D.2.3	33,900	26,594	7,306
Best estimate index linked and unit linked with options or guarantees		27,605		
Best estimate index linked and unit linked without options and guarantees		4,926		
Risk margin		1,370		
Total Aegon Levensverzekering	**D.2.3**	**75,926**	**70,873**	**5,053**

The provisions are split in 'Technical provisions-Life' and 'Technical provisions - Index-linked and Unit Linked' and further in provisions with profit participation, with options or guarantees and without options and guarantees.

For Solvency II the default valuation approach is to use market prices whenever available. If these prices are not available alternative valuation methods can be applied. As no active market for insurance liabilities exists, Aegon Levensverzekering calculates the Solvency II provisions as the sum of the probability weighted average of future cash flows, the time value of options and guarantees and the risk margin.

The calculation of the best estimate liability is on a policy-by-policy basis, using a market consistent basis and the current risk-free rate as prescribed by EIOPA and including indirect overhead expenses. Scaling is applied if products are not modelled and when data are incomplete or unavailable.

For products that contain options and/or guarantees the fair value of the options and guarantees is taken into account. These provisions are calculated separately on a stochastic basis, taking into account risk and volatility. The provisions for options and guarantees are calculated using full data in combination with scenario shuffling.

Aegon Levensverzekering determines homogeneous risk groups in such a way that the risk groups are stable over time. The following criteria are taken into account in determining the homogeneous risk groups:

- Branch (Group pensions and Individual Life);
- Underwriting criteria (Medical examination or not);
- Claim pattern (Lump sum, annuities);
- Risk profile (Longevity or mortality risk);
- Specific product features (savings or term insurance, guarantees or participating/non-participating); and
- Administrative unit (Own account Aegon Levensverzekering or risk policyholder).

Based on the features described above, Aegon Levensverzekering has split the portfolio into 21 homogenous risk groups.

Aegon Levensverzekering does not offer products with profit participation where the policyholder participates in the profit of the firm. All profit sharing is in the form of index or unit-linked, or based on external benchmarks such as TL (interest rebate contracts) and U-yield (external yield to determine level of profit sharing).

Best Estimate Cash Flow

Cash flows are projected on a best estimate basis, i.e. as a probability weighted average taking into account all uncertainties affecting these cash flows. The cash flows are split in claims, expenses and premiums, and are based on specific product characteristics.

The main assumptions used to derive the best estimate cash flows are set by Aegon Levensverzekering, are updated annually and approved by management. The assumptions can be subdivided into underwriting assumptions and assumptions for mortgages. The underwriting assumptions are:

- Mortality;
- Morbidity;
- Cancellation rates / Policy holder behavior;
- Expenses; and
- Other typical Group Pensions parameters (career development and marriage & partner frequencies).

Below we discuss the main drivers (mortality, cancellation rates and expenses) for the calculation of the Solvency II technical provisions.

Mortality

Mortality rate tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, the insured population, mortality trend 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.

Cancellation Rates / policy holder behavior

Aegon Levensverzekering is exposed to considerable potential financial impact from changes in the value of its liabilities caused by policy cancellations. Cancellation rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior.

Policyholder behavior can be reflected in several ways, depending on the product and policy agreements. The main items are:

- Full or partial surrender or termination;
- Premium termination (policy becomes paid up before end of premium payment term);
- Decrease or suspension of premiums;
- Policy conversion (fund switching, reduce or reverse paid up status);
- Utilization of policyholder fund allocation privileges; and
- Decisions on when and how much to annuitize.

Adverse changes in underlying risk drivers will affect Aegon Levensverzekering's ability to meet business objectives and in particular to ensure business continuity. Reliable own experience, as well as available industry wide data, are used in establishing assumptions.

Expenses

The cost base for the determination of the maintenance expenses allocated to the insurance contracts is determined at Aegon Nederland level, using the results from the Activity Based Costing analyses. In these analyses, the expenses are determined per cost place for each business line and support units.

The maintenance expenses allocated to the insurance contracts are transformed into expenses per policy, taking into account product/contract features like type of contract or status (active, retired or inactive).

The cash flow projections for expenses are based on budget 2021 expense levels and take into account inflation in future periods. Also fixed expense levels are assumed in the long run and an outsourcing future management action is assumed based on certain thresholds.

Discounting

The cash flows are discounted using the Solvency II yield curve, including VA, UFR and a credit risk adjustment.

The risk-free yield curves used for the purposes of the Solvency II valuation are published by EIOPA for each relevant currency. The curves are determined by EIOPA using principles outlined in the Solvency II regulations.

The UFR is the risk free interest rate over a one year period that is expected to prevail after an extremely long period, i.e. after 60 years. It is used, in combination with market observed interest rates up to 20 years, to derive interest rates for maturities longer than 20 years.

EIOPA has set the current UFR at 3.75%. It is based on historically observed real interest rates in combination with long term inflation expectations.

For Index Linked and Unit Linked products the expected investment return is equal to de Solvency II yield curve. Expenses incurred and deducted in case of surrender or other charges (e.g. risk premiums and service fees) are also taken into account in the best estimate and discounted with the Solvency II yield curve.

Any guarantees given with respect to the performance of the funds are valued separately, as explained further below.

Options & Guarantees

If products contain options and/or guarantees (e.g. surplus interest profit sharing or guaranteed investment returns), the fair value of the option or guarantee is calculated separately on a stochastic basis, taking into account risk and volatility.

The market value contains an intrinsic as well as a time value and the basis curve to calculate the market value of the options and/or guarantees is the Solvency II swap curve. To create a scenario set for investment returns and interest rates, market volatilities are used. The market volatilities are derived from market prices of tradable financial instruments.

Aegon Levensverzekering has the following categories of products that can contain options and/or guarantees:

- Universal Life (UVL) and Unit-linked;
- Surplus Interest profit sharing; and
- Group pension products.

We describe the options and guarantees embedded in the insurance products in more detail below.

UVL and Unit Linked

When investing in a fund with a guarantee (mix or interest fund), the proportion of the policy invested in this fund will accumulate at a guaranteed rate (in the range of 3% to 4% and before deduction of the asset management fee and the service fee). The accumulation rate varies by fund and the guarantee is fund specific.

Some products have other type of guarantees, e.g. some products contain guarantees that the minimum amount paid on maturity will be the sum of all premiums paid (with or without interest). These products have mixed exposure due to the variety of underlying funds, accumulation rates and the possibility of other guarantees on the policy.

Surplus interest profit sharing

Surplus interest profit sharing can be split into a tariff discount rate guarantee and a profit guarantee at maturity. The profit sharing is linked to government bond investment returns (U-rate).

For products with a guaranteed interest rate for the determination of the premium (mostly 3% or 4%), interest surplus profit sharing can be applied and is then dependent on the return on specific government bonds. If the return on government bonds is higher than the interest rate for the determination of the premiums, profit sharing is applicable. If the return on government bonds is lower than the interest rate for the determination of the premiums, no profit sharing is applicable.

The profit guarantee is applicable for policies where upfront (part) of the profit sharing (percentage of the sum assured) is guaranteed under the condition that the guarantee is only applicable if the insured is alive at the maturity date.

Group pension contracts

The following categories of pension products can contain guarantees:

- GB & FTK (Separate Account and 'Financieel Toetsingskader' contracts);
- Unit-linked;
- OA (Surplus interest profit sharing contracts); and
- TL (interest rate rebate contracts).

GB & FTK

Each contract premium is invested in a specific pool of assets. In case a guarantee is issued, then this guarantee involves the settlement of all liabilities that were financed during the period in which the contract was in place. Upon retirement, the maturity amount is based on an interest rate guarantee of either 3% or 4% for GB contracts. For FTK policies, premiums are based on the DNB curve at the time of payment (the liabilities financed from these premiums are guaranteed as well, similar to the GB portfolio). In case of an interest rate surplus, it may be paid to the customer, depending on the specific arrangements that have been agreed in the contract, at the discretion of Aegon Levensverzekering. The policyholder pays a fee for this guarantee.

Unit-linked

The vast majority (70%) of this portfolio consists of endowment retirement policies whose premiums are invested in funds that policyholders are free to select by themselves to a certain degree. Certain funds have a guaranteed return. On maturity date, for the portion of the maturity benefit that is contained in a guaranteed fund, the guaranteed amount is paid or the fund value itself if the actual fund value is higher. If the actual fund value is less than the guaranteed value, the guaranteed value is for account of Aegon Levensverzekering. For the part of the maturity benefit in non-guaranteed funds, the fund value is paid. These products have mixed exposure due to the variety of underlying funds and the possible combinations of guaranteed and non-guaranteed funds.

OA

OA is a traditional pension product with guaranteed liabilities. The contract features an agreed interest rate and an agreed mortality table. The part of the provisions that is not needed for the direct claims are invested in so called "tranches", being equal redemption loans with a maturity of usually 10 years. The reference interest rate on these tranches is the U-rate at the time of the purchase. Over time if an interest surplus emerges, it may be distributed to policyholders. It may be used to offset previous losses or to act as a buffer for future losses. A charge for indexation is applied to this product.

TL

TL contracts have both interest guarantees and profit sharing mechanisms, leading to mixed exposure. Based on the pricing rates, clients do not pay a surcharge on future premiums, if interest rates are low. However if interest rates are high, then policyholders receive a rebate on future premiums. The profit share is given once in advance. Future discounts cannot be negative, therefore all rebates applied are guaranteed. Aegon Levensverzekering maintains a guarantee provision for these items.

Risk Margin

The risk margin is to ensure that the value of technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations. A Cost of Capital approach is applied to determine the value of the risk margin.

The risk margin captures the following risks:

- underwriting risk;
- credit risk with respect to reinsurance contracts, arrangements with special-purpose vehicles, intermediaries, policyholders and any other material exposures which are closely related to the insurance and reinsurance liabilities; and
- operational risk

In order to calculate the risk margin, the SCR's for above mentioned risks for future years need to be determined. The expected SCR in future years is projected by using the projected best estimate liability as "risk driver" and the SCR at reporting date as starting point. Aegon Levensverzekering applies a cost of capital percentage of 6%, in accordance with the Delegated Acts. Note that the application of the risk driver is a simplification relative to recalculating the expected SCR in each point in time in the future. This simplification does not lead to a material misstatement of the risk margin.

Contract boundaries

According to Solvency II regulations the valuation of insurance and reinsurance obligations should include obligations relating to existing insurance and reinsurance business. Obligations relating to future business should not be included in the valuation. Where insurance and reinsurance contracts include policyholder options to establish, renew, extend, increase or resume the insurance or reinsurance cover, or undertaking options to terminate the contract or amend premiums or benefits, a contract boundary is defined to specify whether the additional cover arising from those options is regarded as existing or future business.

For the Life individual portfolio the contract boundary is equal to the end date of the contract. Only difference is the savings part of the savings mortgages, those contracts the contract boundary is the interest reset date. For group pension contracts the boundary is equal contract renewal date. For contracts that can be renewed on an annual basis the contract boundary is equal to one year.

For group pension contracts the contract boundary for the premium payments is equal to the contract renewal date. After the contract renewal date the contract becomes paid up and will run-off until the last insured person dies. For contracts that can be renewed on an annual basis, the new contract term is equal to one year.

D.2.2. Level of uncertainty associated with the value of technical provisions

The main source of uncertainty associated with the technical provisions is in the setting of assumptions where a significant level of judgment may be required about how future experience may differ from past experience. The assessment of uncertainty in this case is addressed by sensitivity testing of key assumptions so that the governing body can understand how different choices would impact the technical provisions. Main uncertainties affecting the technical provisions of Aegon Levensverzekering relate to mortality rates, cancellation rates and expense levels.

The risk margins relate to the cost of holding capital to allow for uncertainty around the best estimate assumptions and are included in the technical provisions as addition to the best-estimate liabilities.

Other sources of uncertainties are associated with scaling (applied to portfolio segments for which accurate portfolio data are incomplete or unavailable at all) and the applied UFR and VA.

D.2.3. Differences between Solvency II valuation and local GAAP/IFRS valuation of Technical Provisions analyzed by each material line of business

Refer to the table in chapter D for the difference between the IFRS and Solvency II liabilities, split in Life and Index-Linked and Unit-Linked. We describe the difference in the valuation basis for IFRS and Solvency II below.

IFRS measurement

Life (excluding index linked and unit linked)

The statutory liabilities arising from traditional life insurance products, 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 historic underwriting assumptions and a fixed discount rate of 3% or 4% (depending on the inception date of the policy). For contracts exposed to longevity recent mortality assumptions are used. Furthermore, the liability for life insurance comprises reserves for unearned premiums and accrued annuity benefits payable.

The liabilities for life insurance products include the provisions for future administration expenses, set up to cover expected future expenses related to the period after premium payment, as well as provisions for future expenses associated with processing benefits (such as annuities and pension payments).

Terms and conditions, including participation features and expected lapse rates (for the determination of the guarantee provisions), are considered when establishing the insurance liabilities. When Aegon Levensverzekering 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 reflected in the guarantee provisions.

Index linked and unit linked

Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders. The IFRS liability for the insurance contracts for account of policyholders is measured at the policyholders account balance. In case guarantees are applicable, the fair value of the guarantees is not included in the technical provisions but is presented as a derivative liability.

Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

A liability adequacy test (IFRS LAT) is performed every reporting period. The IFRS LAT provision is calculated as the sum of the best estimate provisions, including a risk margin and provisions for options and guarantees. The measurement for IFRS LAT also includes provisioning for expected expenses and longevity. If the IFRS LAT shows a deficit, which is the case at year end 2020, the IFRS provisions will be set equal to the IFRS LAT provisions. For the determination of the IFRS LAT provisions, the differences between fair values and book values of assets (mortgages and other loans) are also taken into account.

Difference between IFRS and Solvency II measurement

For details on the methodology and the underlying assumptions to calculate the Solvency II technical liabilities we refer to section D2.1.

The main differences between the IFRS liabilities (€ 70.9 billion) and Solvency II liabilities (€ 75.9 billion) are:

- Reclassification of the provision for options and guarantees from derivatives to 'Technical provisions - Index-linked and Unit Linked' (+ € 2.0 billion). Under IFRS the guarantee provision of unit linked policies is classified as derivative or 'Technical provisions-Life' since policyholders are not bearing the investment risk, while under Solvency II the guarantee provision related to unit linked policies is classified as 'Technical provisions - Index-linked and Unit Linked'.
- Surplus value mortgages included in IFRS LAT (+ € 3.1 billion);
- Difference in risk margin (+ € 2.1 billion);
- Difference in curves, the EIOPA curve for Solvency II and the interest curve used for the IFRS LAT (-/- € 1.4 billion);
- Valuation differences in the guarantee provision between IFRS LAT and Solvency II (-/- € 1.0 billion).

Important drivers for the difference between the IFRS LAT liabilities and the Solvency II liabilities are the difference in the risk margin and the surplus value of mortgages.

The IFRS LAT and Solvency II risk margin are both calculated using the cost of capital approach with a cost of capital rate of 6%. Moreover, the same shock categories apply and future SCRs are projected using the projected best estimate liability as 'risk driver'. Despite these similarities in methods, the following differences apply:

- IFRS LAT uses no diversification between SCRs and uses a 80% confidence interval, where Solvency II uses diversification and a confidence interval of 99.5%;
- Zero yields used for determining the projected SCRs differ as IFRS LAT and Solvency II have different yield curves. Please note that the SCRs for Solvency II are based on the risk free rate without VA, as per the Level 3 guidelines; and
- Zero yields used for discounting the cost-of-capital differ as IFRS LAT and Solvency II have different yield curves. Please note that the SCRs for Solvency II are based on the risk free rate without VA.

D.2.4. Matching adjustment

The Matching Adjustment ('MA') is a mechanism that (partially) mitigates the impact of spread movements on the net balance sheet numbers, where assets and liabilities are cash flow matched. Aegon Levensverzekering does not apply the matching adjustment.

D.2.5. Volatility adjustment

The Volatility Adjustment ('VA') is applied by Aegon Levensverzekering and is equal to 7 basis points at year end 2020. The VA aims to avoid pro-cyclical investment behavior of insurers when bond prices deteriorate due to low liquidity of bond markets or exceptional expansion of credit spreads. Removing the VA would lead to lower discount rates for calculating the technical provisions, which leads to higher technical provisions and thereby lower own funds.

Aegon applies a dynamic VA model and assesses the impact of changes in spreads on assets through scenario analyses. Key rationale is that Aegon is a long term investor (given its long dated liabilities) and that initial market value losses on assets after a spread shock will be (partially) regained over time as the assets keep paying the interest and notional. This effect is quantified in Aegon's Dynamic VA model and therefore lowers the capital requirement for spread risk. In line with regulatory requirements, Aegon Levensverzekering determines the VA-impact on the SCR if the regulatory concept of the VA would not exist at all and without adjusting for the spread risk on the asset side. Aegon considers the dynamic VA an integral part of the modelling of spread risk. In case the VA were not applied in the SCR calculation, other model changes would be triggered as well, leading to compensatory effects which are not incorporated in the table below.

D.2.6. Transitional Measures

Insurance undertakings may, subject to prior approval by DNB, apply a transitional measure to the relevant risk free interest rate term structure to calculate the provisions or to apply a temporary deduction of the technical provisions (article 308c of Directive 2009/138/EC). Aegon Levensverzekering decided not to apply this transitional measure.

Aegon Levensverzekering also does not apply measures on technical provisions (article 308d of Directive 2009/138/EC).

D.2.7. Recoverables from reinsurance contracts and special purpose vehicles

Reinsurance contracts are contracts entered into by Aegon Levensverzekering in order to receive compensation for losses on contracts written by Aegon Levensverzekering (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement. Reinsurance recoverables at the end of 2020 amounted to € 7 million on the IFRS and -/- € 360 million on Solvency II balance sheet.

The difference between the positions on the Solvency II and IFRS balance sheet is driven by the reinsurance contract with Canada Life Re., effective as per December 31, 2019, which covers a substantial part of the Pensions annuity book. The accounting treatment of this contract is different between Solvency II and IFRS:

- Under IFRS a Deferred Cost of Reinsurance (DCoR) and a net reinsurance liability for an equal amount are established at inception. The DCoR is amortized over the duration of the underlying insurance contracts while the reinsurance liability will decrease over time to nil by the end of the contract following the run off of the reinsured portfolio. The DCoR is presented under Receivables (trade, not insurance), while the reinsurance liability is presented under Reinsurance payables;
- Under Solvency II, both the DCoR and the reinsurance payable are eliminated and a reinsurance recoverable is established, consisting of the present value of all expected future cash in- and outflows relating to the reinsurance arrangement.

The impact of the application of the VA on the Solvency II ratio is as follows:

Solvency II	Technical provision	Own Funds	SCR	Ratio	MCR	Eligible OF to meet MCR
Aegon Levensverzekering Q4 2020	75,926	5,507	3,459	159%	1,403	5,132
VA spread	597	450	1,491	-/- 57%	11	597
Aegon Levensverzekering Q4 2020 without VA	76,522	5,058	4,951	102%	1,414	4,534

Reinsurance assets are measured consistently with the assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They derecognized when the contractual rights are extinguished or expire, or when the contract is transferred to another party.

Aegon Levensverzekering is not relieved of its legal liabilities when entering into reinsurance transactions, therefore the reserves relating to the underlying insurance contracts will continue to be reported on the statement of financial position during the run-off period of the underlying business.

Reinsurance premiums, commissions and claim settlements are accounted for in the same way as the original contracts for which the reinsurance was concluded. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

D.2.8. Material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period

In 2020 the total Solvency II technical provisions increased by € 4.3 billion from € 71.6 billion per year end 2019 to € 75.9 billion per year end 2020.

The increase in the technical provision is mainly caused by economic variances (+ € 6,097 million) and experience variances (+ € 109 million) with an offset from the roll forward (-/- € 1,779) and the model and assumption changes (-/- € 184 million).

D.3. Other liabilities

The break-out in the table below shows the value of the other liabilities by material liability class under Solvency II and IFRS.

Table: Other Liabilities (in € million)

Other liabilities	**Section**	**Solvency II value**	**Statutory accounts value**	**Difference**
Financial liabilities other than debts owed to credit institutions	D.3.1.1	5,461	5,462	-/- 1
Insurance & intermediaries payables	D.3.1.2	319	319	-/- 0
Reinsurance payables	D.3.1.3	49	317	-/- 268
Payables (trade, not insurance)	D.3.1.4	509	493	16
Subordinated liabilities	D.3.1.5	600	600	-
Any other liabilities, not elsewhere shown	D.3.1.6	-	39	-/- 39

D.3.1. Solvency II valuation for each material class of other liabilities

In this section, the valuation under Solvency II is described per material other liability class (i.e. total liabilities excluding technical provisions). Where the valuation method or classification differs between IFRS and Solvency II, a qualitative and quantitative explanation is provided per other liability category.

In accordance with Solvency II regulations, the amounts are based on fair value. To assure consistency with annual reporting, fair value under IFRS and market value under Solvency II is the same.

Fair value is defined as the amount that would be 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).

D.3.1.1. Financial liabilities other than debts owed to credit institutions

Solvency II and the IFRS balance sheet both measure Financial liabilities other than debts owed to credit institutions at fair value. These liabilities primarily include other long-term loans issued as well as intercompany loans (used as collateral) to Aegon Derivatives N.V..

The Solvency II balance sheet contains a Financial liability other than debts owed to credit institutions position of € 5.4 billion which is € 0.7 million lower than this position on the IFRS balance sheet. This is due to a revaluation.

D.3.1.2. Insurance and intermediaries payables

The fair value of liabilities 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.

The Solvency II balance sheet position of € 318 million includes payables to individual and pension clients and is equal to the IFRS position for insurance and intermediaries payables.

D.3.1.3. Reinsurance payables

The fair value of liabilities 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.

The Reinsurance payables position on the Solvency II balance sheet of € 49 million is € 268 million lower than the position on the IFRS balance sheet. This difference is due to the reclassification of the reinsurance contract with Canada Life Re. covering a substantial part of the Pensions annuity book. For more information on this reclassification refer to section D.2.7.

D.3.1.4. Payables (trade, not insurance)

The fair value of liabilities 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.

The Payables (trade, not insurance) position on the Solvency II balance sheet predominantly consists of the current account payables and is € 16 million lower than the IFRS position due to a reclassification.

D.3.1.5. Subordinated liabilities

TThe Subordinated liabilities contain the subordinated loan Aegon Levensverzekering received in 2007 from Aegon Nederland N.V. This loan was initially € 850 million and has an indefinite duration; the term of notice is five year. The subordination is to other creditors. The interest rate is 6%. In September 2010, € 250 million was repaid following DNB approval. The carrying amounts disclosed reasonably approximate fair value at year end.

D.3.1.6. Any other liabilities, not elsewhere shown

The Solvency II balance sheet includes an Any other liabilities position of € 0 million, whereas the equivalent position on the IFRS balance sheet is € 39 million. The -/- € 39 million difference is due to reclassifications related to accrued interest.

D.4. Alternative methods of valuation

Alternative methods of valuation are used for assets and liabilities for which no quoted markets prices exist in active markets for the same or similar assets and liabilities. This concerns the following assets and liabilities: Deferred tax assets, Property, Loans and mortgages, and the Technical provisions.

For these assets and liabilities we refer to sections D.1, D.2 and D.3, for information regarding these alternative methods of valuation.

D.5. Any other information

Aegon Levensverzekering is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. 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. There are individual 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. 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; 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.

In May 2019 a claim was filed against Aegon Levensverzekering regarding the conditions of a reinsurance agreement. At this time, Aegon Levensverzekering is unable to estimate the range or potential maximum liability. There can be no assurances that this matter, will not ultimately result in a material adverse effect on Aegon Levensverzekering's business, results of operations and financial position.

It is to be noted that discussions regarding the treatment of contingent liabilities arising from litigation started by the end of 2015 between the insurance industry and DNB. The discussion particularly focuses on differences in treatment under IFRS versus Solvency II as well as the ability of insurers to reliably quantify contingent liabilities related to litigation related to Unit-Linked investment policies. These discussions continue into 2021.

All other relevant information is covered in the previous sections.

E. Capital Management

E.1 Own funds

E.1.1. Objective, policies and processes for managing own funds

Objective and policies

The capital and risk strategy for Aegon Levensverzekering is aligned with the Aegon Group capital management policy and risk strategy. The principles laid out in the Group capital management policy and the Group risk strategy form the foundation for limit and appetite setting in the Aegon Nederland capital management policy.

Under the Aegon Nederland capital management policy, a level of additional capital above the Solvency II SCR is targeted such that the company can withstand plausible risk events and still meet its regulatory capital requirement. When the capital coverage is in the target range, the entity would normally be expected to pay a regular dividend. When the capital coverage is in excess of the upper end of the target range, the expectation is that this provides opportunity for accelerated investment in its growth strategy or an increased dividend payment to the shareholder. When the capital coverage is below the lower-end of the target zone it would become necessary to reassess dividend payments and develop plans to strengthen the capital position back to within the target range over a limited period of time.

The policy contains statements on risk appetite and limits that are in place for each type of risk, the desired and minimum level of own funds, as well as the escalation procedures (including governance process) in case limits are breached. Projections of own funds and required capital are made as part of the Budget / Medium Term Plan and ORSA. These longer-term projections are also taken into account in dividend assessments. The projections consider regular, mildly adverse as well as extreme scenarios, in order to ascertain that Aegon Levensverzekering is able to fulfil its obligations to policyholders in these scenarios.

Key figures

Eligible own funds of Aegon Levensverzekering equaled 159% of the SCR at year end 2020. This ratio being higher than 100%, demonstrates Aegon's ability to meet policyholder obligations when they fall due, even under stressed conditions.
The bottom-end of the capitalization target range for the Solvency II ratio (Eligible own funds divided by SCR) of Aegon Levensverzekering is set by the company's Executive Board at 135% (per January 1st, 2021).
The Solvency II ratio at year end 2020 (159%) is lower than at year end 2019 (164%).

The current capitalization of Aegon Levensverzekering is within the target range.

E.1.2. Own Funds – Quality & Amounts

Own funds are classified into different tiers, indicating their quality and availability to fully absorb losses. Total own funds of Aegon Levensverzekering are comprised of Unrestricted Tier 1, Tier 2 and Tier 3 capital. Under the Solvency II regime, own funds are split into the tiers as shown in the table below.

Tier 1	Tier 2	Tier 3
Unrestricted Tier 1 • Equity (Share capital and share premium) • Reconciliation Reserve **Restricted Tier 1** • Perpetual subordinated capital instruments with loss absorption	• Dated or perpetual • Subordinated capital instruments - With an original maturity of at least 10 years - Limited loss absorption - With suspension of payments and deferral of interest	• Dated or perpetual • Subordinated capital instruments - With an original maturity of at least 5 years - Limited loss absorption - With suspension of payments and deferral of interest • Net deferred tax assets

An overview of own funds components including an allocation by tier is given below:

Amounts in € million	**2020**	2019
Unrestricted Tier 1 – before adjustments	5,701	5,193
Non-available	-/- 850	-/- 850
Tier 2	600	600
Tier 3	56	335
Total eligible Own Funds to meet the SCR	5,507	5,278

Compared to Q4 2019, eligible own funds increased mainly due to normalized capital generation, the impact from the mortality table update and market movements (where decreased interest rates resulted in a gain due to the overhedged position on a Solvency II basis). The increase is offset by the UFR decrease (to 3.75%) and dividend payments in the first and fourth quarter of 2020.

The components of the own funds of Aegon Levensverzekering are described below:

Element of Own funds	*Description*
Tier 1 capital: consists of ordinary shares, share premium and reconciliation reserve, which are fully available without restrictions. There are no obligations to redeem these own fund items at any time, hence no maturity date applies.	The Reconciliation Reserve is determined as the excess of assets over liabilities minus the ordinary share capital and share premium account related to ordinary share capital. As mentioned in the table below the Reconciliation Reserve amounts to approximately € 4.3 billion and as such, is the dominant component of the own funds. It originates mostly from earnings accumulated in previous years which have not been distributed to shareholders. A downwards adjustment to total capital amounts to € 850 million for non-available items. This restriction relates to intercompany relationships between Aegon Nederland N.V. and Aegon Levensverzekering.
Tier 2 capital: consist of ancillary own funds and tier 2 capital instruments. Ancillary own funds consist out of items other than basic own funds which can be called up to absorb losses.	Tier 2 capital consists of a grandfathered subordinated loan of € 600 million from Aegon Nederland to Aegon Levensverzekering. The loan is undated. Redemption of the loan is subject to supervisory approval. Aegon Levensverzekering does not have ancillary own funds.
Tier 3 capital: consist of deferred tax assets	Tier 3 capital consists of net deferred tax assets in the amount of € 56 million at the end of 2020. This is the net position of Aegon Levensverzekering consolidated, being € 61 million for Aegon Levensverzekering itself, offset by € 5 million DTL of the Aegon Levensverzekering subsidiaries. The starting position for determining the deferred tax position in the Solvency II balance sheet is the statutory net deferred tax position in the IFRS balance sheet. Subsequently, valuation differences between Solvency II and IFRS are recognized and taxed if applicable.

E.1.2.1 Detailed breakdown eligible amount of own funds to cover the Solvency Capital Requirement and Minimum Capital Required

Eligible own funds to meet the SCR of Aegon Levensverzekering amount to approximately € 5.5 billion. This is shown in the table below.

Eligible Own funds to meet SCR and MCR

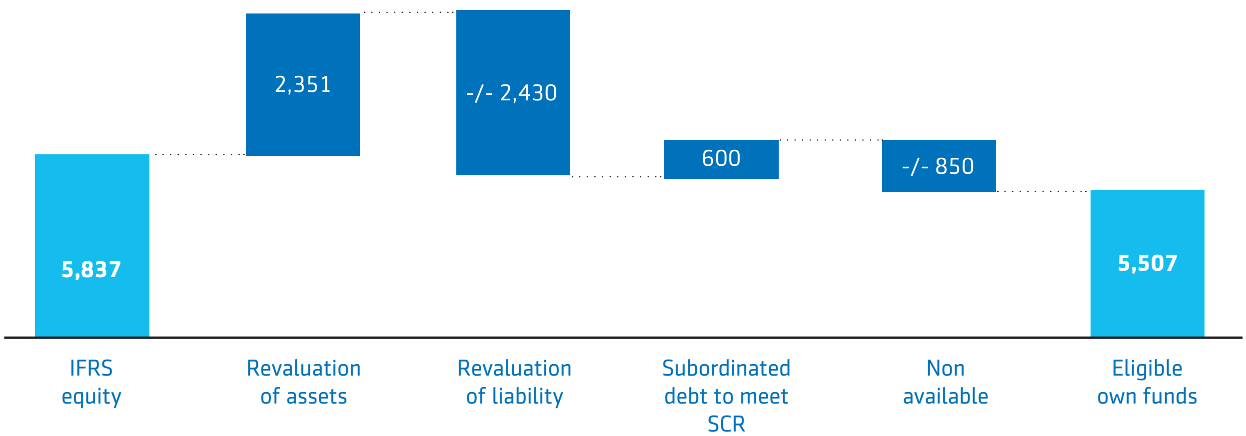
	Total Tier	U-Tier 1	Tier 2	Tier 3
Ordinary share capital- gross of own share	23	23		
Share premium account related to ordinary share capital	1,355	1,355		
Reconciliation reserve	4,323	4,323		
Subordinated liabilities	600		600	
Deferred tax assets	56			56
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-/- 850	-/- 850		
Available own funds	**5,507**	**4,851**	**600**	**56**
Eligible funds to meet SCR	**5,507**	**4,851**	**600**	**56**
Eligible funds to meet MCR	**5,132**	**4,851**	**281**	**0**

The total eligible own funds to meet the SCR are the same as the available own funds. There is no capital loss or capital overflow after applying capital restrictions to all 3 Tiering buckets. Approximately 88% of the eligible own funds consist out of unrestricted Tier 1 capital, covering 140% of the total SCR.

The total amount of eligible own funds to cover the MCR is lower than the SCR eligible own funds as eligible amounts of Tier 2 own funds to cover the MCR may not exceed 20% of the MCR. Tier 3 capital is not considered eligible to meet MCR.

E.1.3. Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities

Below mentioned graph shows the reconciliation between statutory IFRS equity and SII own funds.



Main reasons for the differences in valuation are as follows:

1. Revaluation of assets in the amount of € 2.4 billion mainly reflects mortgages and private loans held for general account and for index linked and unit linked which are valued at amortized cost under IFRS, and at market value under Solvency II;
2. Revaluation of liabilities in the amount of -/- € 2.4 billion mainly relates to technical provisions, which are valued using different economic and non-economic assumptions in both frameworks;
3. Under IFRS the subordinated debt from Aegon Nederland N.V. to Aegon Levensverzekering is not considered part of equity while it is being considered tier 2 capital as part of the own funds under Solvency II;
4. The € 850 million loan to Aegon Nederland N.V. from Aegon Levensverzekering's former subsidiary Optas is considered a non-available component under Solvency II. This restriction is not considered under IFRS.

A more extensive analysis is given in Chapter D.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Solvency Capital Requirement

SCR methodology based on the Solvency II PIM

Aegon uses a Solvency II PIM to calculate the solvency position of its insurance activities under Solvency II. Aegon's internal model was approved by the College of Supervisors as part of the Internal Model Application Process. For Aegon, a (partial) internal model is a better representation of the actual risk since this contains Aegon Levensverzekering specific modeling and sensitivities as opposed to industry-wide approximations included in the standard formula methodology. The purpose of the internal model is to better reflect the actual risk profile of Aegon Levensverzekering in the SCR. The most material risk types for Aegon Levensverzekering are therefore covered by the internal model as part of the Solvency II PIM, and less material risk types are covered by the standard formula part of the Solvency II PIM. A visual representation of the structure of the internal model is provided below.

Risk Class	QRT S.25.02	Risk Type	Application
Mismatch risk	Market risk	Interest rate level	IM
		Interest rate volatility	IM
		Currency	SF
Investment & Counterparty risk		Fixed income	IM & SF
		Equity level	IM & SF
		Equity volatility	IM
		Alternative investment	IM & SF
		Deterministic adjustment	IM
	Counterparty default risk	Counterparty	SF
Underwriting risk	Life Underwriting risk	Mortality Contagion	IM
		Mortality Parameter	IM
		Longevity Parameter	SF
		Disability/morbidity	IM & SF
		Persistency	SF
		Expense risk	SF
	Health Underwriting risk	Health	n/a
	Non-life Underwriting risk	P&C	SF
Operational risk	Operational risk	Operational	SF
Diversification	Aggregation		IM
	PIM - integration		Integration technique 3

For every risk factor, a marginal probability distribution function is fitted using historical data and expert judgement. The overall joint probability distribution function of all the risk factors combined takes into account the dependency structure between the risks. The loss from 2 million scenarios simulating the samples from this joint distribution are used to fit an overall empirical loss distribution function, from which we derive the 1-200 loss by taking the 99.5% point.

Additional purposes for which Aegon Levensverzekering uses the Solvency II PIM include:
- Quantification of risk exposures in order to set adequate capital buffers;
- Monitoring of these exposures against the stated risk appetite and risk tolerance;
- Product pricing, where the cost of capital has a significant impact on overall costs;
- Assessment of the value of new business sold, in particular the value of options and guarantees included therein; and
- Budgeting of capital requirements, Dividend Policy & Contingency Planning.

The following risk types are modeled under the internal model component of the Solvency II PIM:

Within the Mismatch risk category:
- Interest rate risk and interest rate volatility risk.

Within the Investment and counterparty risk category:
- Regular equity risk excluding private equity;
- Equity volatility risk;
- Spread, default and migration risk for fixed income securities including mortgages, but excluding illiquid investments; and
- Property risk for the direct real estate investments intended for rentals.

Within the Investment and counterparty risk category, Aegon Levensverzekering has included a new category called “Deterministic adjustment”. In 2020 Aegon Levensverzekering has identified improvements to its internal model that mitigate volatility caused by the basis risk between the EIOPA VA reference portfolio and its own asset portfolio. These improvements were implemented for year-end reporting and they will be in place until changes arising from the Solvency II review are enacted.

Within the Underwriting risk category:
- Mortality and longevity risk; and
- Mortgage prepayment risk.

All risk types that are not covered by the internal model are covered under the standard formula component of the Solvency II PIM. The risk measure used in all components of the Solvency II PIM is the 99.5% value at risk applied over a one-year time horizon. The standard formula SCRs and internal model SCRs are combined to calculate the Solvency II PIM SCR using Integration Technique 3 as listed in annex XVIII.D of Commission Delegated Regulation (EU) 2015/35 (Delegated Acts).

Diversification within the Solvency II PIM SCR

Under Solvency II PIM, Aegon Levensverzekering calculates the diversification benefit across risk types. Within the standard formula components, diversification is determined following the prescribed correlation matrices.

Within the internal model component, diversification is calculated as follows: For each risk type a worst-case shock is calibrated at the 99.5% confidence level over a one-year time horizon. These shocks reflect the adverse value change of the assets and liabilities over the time horizon including the amounts paid during the one-year time horizon, as well as the change in present value of cash flows projections at the end of the projected time horizon. The combination of these adverse value changes are the own funds losses.

To calculate the total SCR and diversification, the own funds losses are determined not only at the 99.5% confidence level of the risk types, but at two million equally likely scenarios. This is a Monte Carlo simulation approach. These scenarios are generated using a scenario generator and a dependency structure, defining the dependency (correlation) between risk drivers based on market data and expert judgment. Each scenario contains values for risk drivers such as interest rates, equity returns and mortality levels.

Aegon uses loss functions to calculate the own funds losses in all these scenarios. These loss functions are fitted using full valuations at several points (percentiles) of the distribution of the applicable risk type. For each of the two million scenarios, the own funds losses are summed between the risk types and business units that apply the internal model, resulting in the total loss in own funds for the scenario. By ordering these scenarios based on their aggregated losses, the 99.5 percentile of the losses is determined. The total net SCR (after diversification) is then determined by the average loss in own funds for the 5,001 scenarios around the 99.5 percentile.

Diversification is defined as the difference between the sum of the standalone SCRs of the risk types and the total net SCR.

Diversification between the internal model and the standard formula components of the Solvency II PIM are calculated using Integration Technique 3 ("IT3") in accordance with Solvency II regulation. IT3 describes how an implied linear correlation coefficient between the internal model and standard formula components is calculated. This correlation coefficient is subsequently used to calculate the total Solvency II PIM SCR using a square root formula.

Data quality

Aegon Levensverzekering has implemented the Data Quality Policy of Aegon Group for the Solvency II reporting processes, including the required data directory and a description of the criteria regarding data completeness, accurateness and appropriateness. Data used in the internal model originate from internal as well as external sources, for example:

- Policy Data level detailing characteristics and coverage of individual insured;
- Data specifying the portfolio of assets, e.g. type of asset, amount, and maturity date.
- Data from external sources such as population mortality tables and prices of traded securities.

The internal model design aims to make optimal use of all available data in the stages of model design and execution. An assessment of the appropriateness of data usage forms part of the model validation process.

Other

No simplified calculations or undertaking specific parameters have been used for the SCR components determined on the basis of the Standard Formula.

Solvency II PIM SCR at December 31, 2020

Aegon Levensverzekering's Partial Internal Model SCR amounted to € 3,459 million on December 31, 2020 (2019: € 3,219 million). The increase in SCR compared to year end 2019 is driven by market movements and model and assumption changes, with an offset from normalized capital generation. The impact from model and assumption changes reflects several Pension model changes, a change in the capital treatment of illiquid assets (private loans) and the reduction of the LAC DT factor.

The table below shows the breakdown of the Solvency II PIM SCR for Aegon Levensverzekering at year end 2020, as reported in QRT S.25.02:

Amounts in € million	Components description	**2020**	2019
C.3 Market risk	Market risk (SF)	761	1,071
	Market risk (IM)	2,016	1,819
C.3 Credit risk	Counterparty default risk (SF)	119	108
	Counterparty default risk (IM)	-	-
C.2 Underwriting risk	Life underwriting risk (SF)	999	860
	Life underwriting risk (IM)	2,175	1,597
	Health underwriting risk (SF)	-	-
	Health underwriting risk (IM)	-	-
	Non-life underwriting risk (SF)	-	23
	Non-life underwriting risk (IM)	-	-
C.5 Operational risk	Operational risk (SF) including De Hoop	316	300
	Operational risk (IM)	-	-
E.2 Solvency Capital Requirement	Diversification	-/- 2,469	-/- 2,020
	LAC Deferred Taxes	-/- 457	-/- 539
	Total SCR	**3,459**	**3,219**

Diversification of € 2,469 million shown in QRT S25.02 includes the integration between the SF and IM parts of the PIM SCR and diversification between the risk categories, but does not include diversification within each risk component.

Within the QRT S.25.02 risk categories there is diversification within each the risk category, mainly:

- Market Risk (MR) diversification, driven by diversification between spread and interest rate level risk, as well as diversification between interest rate level and other market risk types. Diversification benefits for interest rate level risk are relatively large as Aegon is exposed to an increase in interest rates, which has low correlation with the spread widening scenarios. Diversification benefits for spread risks are relatively small as spread risk (exposure to spread widening) is the largest risk category for Aegon in terms of SCR and therefore drive the aggregated own funds losses in a 1-in-200-year event. Note that all these figures are after applying the dynamic volatility adjustment;
- Underwriting risks (UR) diversification benefits are driven by longevity risk, which is the largest underwriting risk with comparably small diversification. Longevity risk has a relatively low correlation with other underwriting risk types, such as lapse risk. Underwriting risks typically also have low correlation with Market risk types, like spread risk, that drive the aggregated own funds losses around the 99.5th percentile;

The LAC-DT is calculated after diversification and lowered the net PIM SCR by € 457 million (2019: € 539 million).

On the 8th of December, 2020 the DNB published a new Q&A for LAC DT. Within this Q&A additional guidance is provided regarding:

- Consideration of uncertainty within profit sources which increases over time;
- No external recapitalization allowed unless the recapitalization is unconditional, but also no recapitalization hurdle requirement;
- The IAS 12 substantiation is not sufficient anymore. It should be made clear from the Solvency II projections that sufficient future profit sources are available to substantiate the (pre-shock) DTA position;
- Reporting requirements.

Aegon Levensverzekering decided to lower the factor applied when calculating the loss-absorbing capacity of deferred taxes (LAC DT) from 65% at year end 2019 to 45% at year end 2020 to reduce the sensitivity of this factor to economic variances going forward, and to take into account industry-wide Q&A and good practices recently published by the Dutch Central Bank. The DTA position can be fully substantiated based on Solvency II projections. Furthermore, the corporate tax rate was increased to reflect the reversal of the corporate tax rate lowering in 2021 (from 21.7% to 25%). 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.

This LAC DT factor is based on tax benefits of previous year fiscal profits (carry back), current year fiscal profits and potentially current deferred tax liabilities existing pre-shock in the base balance sheet. Furthermore, eligible future profits, including tax planning, are taken into account to underpin the tax recovery on SCR losses which occur in the future.

E.2.2. Minimum Capital Requirement

The MCR has been determined as the sum of the following components, leading to a linear MCR of € 1,403 million. The MCR contains a minimum of 25% and a maximum of 45% of the SCR, as stipulated in article 292(2)(g) of the Delegated Regulation. Applying the MCR cap, the MCR remains € 1,403 million.

Component MCR 2020	Charge	Capital at Risk	MCR
Technical Provisions for Obligations with profit participation - guaranteed benefits, excluding the risk margin, net of reinsurance with a floor equal to zero	3.70%	18,666	691
Technical Provisions for index-linked and unit-linked insurance, excluding the risk margin, net of reinsurance with a floor equal to zero	0.70%	32,531	228
Technical Provisions for all other life insurance, excluding the risk margin, net of reinsurance with a floor equal to zero.	2.10%	21,768	457
Capital at Risk by policy summed over for all life insurance policies	0.07%	39,003	27
Total linear MCR			**1,403**
MCR cap			1,557
MCR combined			**1,403**

As a comparison, the MCR on December 31, 2019 is shown below.

Component MCR 2019	Charge	Capital at Risk	MCR
Technical Provisions for Obligations with profit participation - guaranteed benefits, excluding the risk margin, net of reinsurance with a floor equal to zero	3.70%	17,850	660
Technical Provisions for index-linked and unit-linked insurance, excluding the risk margin, net of reinsurance with a floor equal to zero	0.70%	31,316	219
Technical Provisions for all other life insurance, excluding the risk margin, net of reinsurance with a floor equal to zero.	2.10%	20,357	427
Capital at Risk by policy summed over for all life insurance policies	0.07%	37,666	26
Total linear MCR			**1,334**
MCR cap			1,449
MCR combined			**1,334**

Compared to 2019, the MCR increased. At both year ends, the linear MCR was leading. Overall, the TP's increased significantly compared to 2019 (for more details on the TP movement, refer to section D.2. The Capital at Risk increased due to improved data. All in all, these effects had an increasing impact on the MCR.

E.3. Use of duration-based equity risk sub-module in the calculation of the Solvency

Aegon Levensverzekering does not make use of the duration-based equity risk sub-module set out in article 304 of Directive 2009/138/EC for the calculation of the Standard Formula SCR.

E.4. Differences between internal model and standard formula

The main differences between the methodologies and assumptions of the Solvency II PIM and the standard formula are discussed by risk type below.

Market risk

The fixed income risk for bonds differs because Solvency II PIM shocks are calibrated on the basis of Aegon Levensverzekering's fixed income portfolio. In contrast to the standard formula, government bonds are shocked with a factor larger than zero. Furthermore, the Solvency II PIM makes use of a dynamic volatility adjustment approach within Aegon Levensverzekering, while the standard formula does not.

Aegon's Dynamic Volatility Adjustment methodology follows an asset-only approach, ensuring spread widening is the biting scenario. The performance of the fixed income portfolio is assessed under a broad range of credit scenarios and the model determines which part of the (short-term) losses experienced by the assets are recouped.

For mortgages, the Solvency II PIM contains a spread shock, while the standard formula implies a counterparty default risk shock.

Equity risk shocks are calibrated based on Aegon Levensverzekering's own portfolio. In addition, the equity exposures are also shocked for equity volatility risks.

Within Aegon Levensverzekering, property risk shocks on the real estate portfolio are calibrated on the portfolio itself as opposed to a 25% shock in the standard formula.

The Solvency II PIM results for interest rate risks differ from the standard formula results for the following reasons:

- The standard formula interest rate shock only considers a parallel shift in the interest rate curve, whereas the Solvency II PIM considers not only a parallel shift, but also for a flattening/steepening and twisting of the interest rate curve;
- The Solvency II PIM interest rate curve shocks are calibrated based on historical market data;
- The Solvency II PIM assumes that the UFR does not change in a shock scenario, while the standard formula interest rate shock assumes that the whole curve moves, including the UFR; and
- In addition, the Solvency II PIM includes a capital requirement for interest rate volatility risk.

Underwriting risk

The Solvency II PIM for longevity and mortality risk differs from the standard formula as follows:

- The Solvency II PIM makes a distinction between a population mortality shock and an experience factor shock while the standard formula assumes a fixed decrease in all mortality rates; and
- The Solvency II PIM projects mortality rates by age and gender while the standard formula assumes the same shock for all ages and both genders.

For Aegon Levensverzekering, the Solvency II PIM includes pre-payment (lapse) risk on the mortgage portfolio.

Diversification

Diversification between the internal model and the standard formula components of the Solvency II PIM are calculated using Integration Technique 3. IT3 describes how an implied linear correlation coefficient between the internal model and standard formula components is calculated. This correlation coefficient is then used to calculate the total Solvency II PIM SCR using a square root formula. The standard formula makes use of correlation matrices to calculate the diversifications by risk module and on total level.

E.5. Non-compliance with the Minimum Capital Requirement and non- compliance with the Solvency Capital Requirement

During 2020, there were no instances in which the estimated Aegon Levensverzekering ratio was below the MCR and the SCR level. To ensure that Aegon maintains adequate solvency levels, actual and expected capital positions are monitored against capitalization zones that are defined in Aegon Levensverzekering's capital management policy. Several activities are performed to monitor and assess the future development of Aegon's solvency position, such as the annual Budget and Medium-Term Plan process, ORSA and periodic management reporting. Decisions to return capital or pay dividends to shareholders are based on solvency assessments that consider the impact of the decisions on the current and projected solvency position.

Any solvency position is subject to risks, and Aegon Levensverzekering therefore constantly monitors such risks. These are quantified to determine the impact on the current and the projected solvency position. The capital management policy provides actions that need to be performed as soon as the identified risks could cause the projected Solvency ratio to fall within a particular capitalization zone.

E.6. Any other information

E.6.1. G-SII designation

Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). Up until 2019, the FSB reviewed the G-SII designation annually. However, the FSB, in consultation with the IAIS and national authorities, decided not to publish a new list of G-SIIs for 2017 or 2018. In November 2019, in recognition of the fact that the Holistic Framework (see below) provides an enhanced approach to assessing and mitigating systemic risk in the global insurance sector, the FSB decided to suspend the identification of global systemically important insurers (G-SIIs). In November 2022, the FSB will, based on the initial years of experience with the application of the Holistic Framework, review the need to either discontinue or re-establish an annual identification of G-SIIs. Due to its G-SII status, Aegon has been subject to an additional layer of direct supervision at group level. In accordance with these requirements, Aegon submitted a liquidity risk management plan, a systemic risk management plan, and an ex ante recovery plan to DNB and to the G-SII crisis management group (CMG) that was established. Aegon has updated these plans on an annual basis. In addition, the Aegon Group's Resolution Authority (the Dutch Central Bank) was made responsible for the development of Aegon's resolution plan.

In November 2019, the IAIS adopted the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector. Some of the provisions of the Holistic Framework are included in the IAIS Insurance Core Principles (that apply to all insurers), while others are included in ComFrame (the Common Framework for the Supervision of Internationally Active Insurance Groups, or IAIGs). The Holistic Framework consists of an enhanced set of supervisory policy measures and powers of intervention, an annual IAIS global monitoring exercise which includes a collective discussion of the outcomes and associated supervisory responses, and an assessment of consistent implementation of supervisory measures. ComFrame establishes supervisory standards and guidance focusing on the effective group-wide supervision of IAIGs. ComFrame is a comprehensive and outcome-focused framework that provides supervisory minimum requirements tailored to the international activities and sizes of IAIGs. ComFrame builds on the Insurance Core Principles that are applicable to the supervision of all insurers. If the FSB were to discontinue the annual identification of G-SIIs after the review of the Holistic Framework in November 2022 or, alternatively, Aegon would not be identified as a G-SII, Aegon would still be subject to ComFrame and ICS, to the extent these would be implemented in local legislation.

Glossary

Collateral is an asset pledged by a borrower to secure a loan and is subject to seizure in the case of default.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Diversification is the general concept of reducing the total risk of a portfolio of assets and/or liabilities by spreading it across a mix of different risk exposures. Risk reduction occurs due to the less than perfect correlation among the individual risk exposures in the portfolio, meaning risks will not materialize all at the same time.

Financial risks are risks of a possible future change in one or more of the following variables: a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index or prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance risk is a risk, other than financial risk, transferred from the holder of a contract to the issuer.

Interest rate risk is a market risk, more specifically the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Loss absorbing capacity of deferred taxes is a loss compensating effect of taxes taken into account in the solvency capital requirement.

Minimum capital requirement is the absolute minimum level of capital an insurance company must hold in excess of its Technical Provisions under Solvency II.

Operating expenses are all expenses associated with selling and administrative activities (excluding commissions) after reallocation of claim handling expenses to benefits paid.

Partial Internal Model is a combination of a Standard Formula and Internal Model, used to calculate the Solvency II capital requirement.

Policyholder is a party that has a right to compensation under an insurance contract if an insured event occurs.

Solvency II is the fundamental reform of European insurance legislation.

Solvency capital requirement is the level of capital an insurance company must hold in excess of its Technical Provisions under Solvency II.

Spread is the difference between the current bid and the current ask or offer price of a given security.

Standard Formula is a risk-based approach to the calculation of an insurer's solvency capital requirement, prescribed by the regulator.

Stochastic modeling is a statistical process that uses probability and random variables to predict a range of probable investment performances.

Transitional measures allow EEA entities to gradually move to a full implementation of Solvency II over a period of time.

Volatility adjustment is a volatility adjustment to the discount rates for calculating technical provisions aims at avoiding pro- cyclical investment behavior of insurers when bond prices deteriorate owing to low liquidity of bond markets or exceptional expansion of credit spreads. The adjustment has the effect of stabilizing the capital resources of insurers and will be calculated by EIOPA.

Cautionary notes

Intended use of the SFCR

This Solvency and Financial Condition Report is prepared and published in accordance with the requirements of the Solvency II regulations and EIOPA guidelines and follows a prescribed format. The Group SFCR is primarily prepared for prudential considerations, which includes informing policyholders and other beneficiaries of Aegon's insurance products. While the document is made available to the public in general and may be of interest to stakeholders such as investors in Aegon shares and other financial instruments, it is not specifically aimed at them.

Statement pursuant to article 297 (2) of the Solvency II Delegated Regulation

The Netherlands, as a Member State, uses the option that the capital add-on or the impact of the specific parameters, that Aegon is required to use, do not need to be separately disclosed during a transitional period ending no later than December 31, 2020 (third subparagraph of Article 51(2) of Directive 2009/138/EC).