Aegon

Schadeverzekering N.V.

Solvency and Financial Condition Report 2020

Contents

Executive summary

Scope of the report

This report is Aegon Schadeverzekering's Solvency and Financial Condition Report (SFCR) for the year 2020. This report informs Aegon Schadeverzekering'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 Schadeverzekering'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 Schadeverzekering 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 Schadeverzekering has been prepared and disclosed under the responsibility of the Executive Board. This document was approved on March 23, 2021 by Aegon Schadeverzekering's Executive Board.

Summary

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

A. Business and performance

Aegon Schadeverzekering is the non-life insurance carrier for the Aegon Group of companies in The Netherlands.

Our business model focuses on the following items:

- Products & Services
  - We begin with the customer – Aegon assesses the customer's needs, prices risk and develops products and services that fit with those needs. Our products and services are then branded and marketed
- Distribution
  - Some of our products and services are sold directly to customers. We sell most, however, via intermediaries, including brokers, agents, banks and financial advisors
- Claims & Benefits
  - From the investment returns we make, we pay customer claims and benefits, and make distributions to our shareholder.

Strategy of Aegon Schadeverzekering

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

The Life activities of Aegon Nederland (incl. Aegon Levensverzekering and Aegon Spaarkas) are 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. With the exception of immediate pension annuities (DIP) and indexations of existing group life customers, we no longer accept new customers as of 2021.

Strategic assets

In 3 years' time we want to be the most valued provider of modern solutions in the field of “Income” and “Living”.
We strategically focus on 3 pillars for growth (our “strategic assets”):

1. Mortgages (Aegon Hypotheken);
2. Bank (Knab / Aegon Bank); and
3. Workplace solutions for employers.

The strategic pillar “Workplace solutions” consist of our business in the Wholesale market: Aegon Cappital, TKP Pensioen, Aegon Schadeverzekering, Robidus and Nedasco. Aegon Schadeverzekering is one of our legal entities within the growth pillars Workplace solutions and consist of the segments P&C (Property & Casualty) and Income Protection.

Property & Casualty

Technological developments lead to new customer behavior with an impact on the property and casualty (‘P&C’) business. As such, it is necessary that we change our P&C business to ensure that we can execute our refined strategy according to plan. To be successful and create happy and loyal customers and a growing and healthy portfolio we need to further develop into a digital, data driven client orientated organization.

Income Protection (Accident & Health)

Income Protection wants to evolve from a product-oriented A&H insurer to a customer-focused financial and health services provider known for its innovation: Income Protection offers solutions to mitigate the financial risks for employers, employees and entrepreneurs by offering insurance for absence and disability. Income Protection is also a health service provider who, together with, amongst others reintegration partners, prevents and reduces absence and disability. Income Protection plans to continue her journey towards digitalization and robotization; in 2020 the new platform called “Novum” was realized.

Aegon Schadeverzekering's income before tax for 2020 decreased to € 9 million (€ 36 million in 2019). This decrease is mainly due to the higher policyholder claims and benefits which is partly offset by the positive results from financial transactions.

Policyholder claims and benefits were significantly higher with € 276 million, compared to € 209 million in 2019. The increase is driven by several developments in the 'Accident and health insurance' portfolio, among others: the decrease in interest rates, several model changes, growth of the portfolio and parameter updates.

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 Schadeverzekering and several other companies and is used throughout Aegon Nederland. Aegon Schadeverzekering 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 Schadeverzekering's Executive Board is charged with the overall management of the Company and is responsible for achieving Aegon Schadeverzekering's goals, developing the strategy and its associated risk profile. In addition to overseeing any relevant sustainability issues and the development of Aegon Schadeverzekering's earnings. Aegon Schadeverzekering'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 Schadeverzekering'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
- Remuneration Committee;

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

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In addition to the corporate bodies, described above, Aegon Schadeverzekering 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 Schadeverzekering's risk management framework is designed and applied to identify and manage potential events and risks that may affect Aegon Schadeverzekering. It is established through the Enterprise Risk Management (ERM) framework, which aims at identifying and managing individual and aggregate risks within Aegon Schadeverzekering's risk tolerance limits in order to provide reasonable assurance on the achievement of Aegon Schadeverzekering's objectives. Aegon Schadeverzekering's ERM framework is based on a well-defined risk governance structure:

- Supervisory Board;
- Executive Board;
- Management Team Aegon Nederland;
- Risk & Capital Committee.

Control environment

In addition to the risk management framework, Aegon Schadeverzekering'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 Schadeverzekering 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 Schadeverzekering's internal audit function is independent and objective in performing its duties in evaluating the effectiveness of Aegon Schadeverzekering's internal control system.

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

C. Risk profile

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

Key risks reflect the following:

	Net solvency capital requirement	
	2020	2019
Market risk	19	22
Counterparty default risk	10	11
Health underwriting risk	237	282
Non-life underwriting risk	46	44
Diversification	-/- 60	-/- 63
Operational risk	15	15
LAC DT	-/- 33	-/- 52
SCR	**232**	**259**

The solvency capital requirement decreased markedly over 2020. The SCR decrease was driven by reinsurance of AOV.

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

D. Valuation for Solvency purposes

Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering'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

The bottom-end of the capitalization target range for the Solvency II ratio (Eligible own funds divided by SCR) of Aegon Schadeverzekering is set by the company's Executive Board at 145%. At December 31, 2020, the Solvency II ratio was 176 %, well within the target range.

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

Amounts in € million	**December 31, 2020**	December 31, 2019
Own funds	409	424
SF SCR	232	259
Solvency II ratio	176%	163%
Solvency II ratio without Volatility Adjustment	174%	162%
Minimum Capital Requirement	101	99

Own Funds are classified into different tiers, indicating their quality and availability to fully absorb losses. Total own funds of Aegon Schadeverzekering only includes Unrestricted Tier 1 capital.

With respect to the own funds of Aegon Schadeverzekering, the liability calculation includes the use of the Volatility Adjustment ("VA"), but includes neither the use of transitional measures, nor of the matching adjustment.

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.

The additional DNB guidance did not impact the factor of LAC DT for Aegon Schadeverzekering. However, Aegon already lowered the factor of LAC DT from 75% at year-end 2019 to 50% at year-end 2020 to account for economic uncertainty (low interest rates, drags) and lower new business expectations. 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.

Aegon Schadeverzekering 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. Aegon's SF 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 Schadeverzekering N.V., ('Aegon Schadeverzekering') incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV The Hague, with registration number 27085000. Aegon Schadeverzekering is wholly owned by Aegon Nederland N.V. ("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, 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.

Investments in associates, joint ventures and Investments in structured entities

Aegon Schadeverzekering has no investments in associates, joint ventures or 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 Schadeverzekering and Aegon Group, the supervisory authority responsible for prudential supervision is:

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

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

The external auditor of Aegon Schadeverzekering 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 Schadeverzekering is primarily active in Property & Casualty and Accident & Health insurance in The Netherlands. Aegon Schadeverzekering operates from The Hague.

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

Consumer P&C (Property & Casualty)

In 2020 we have seen the continuation of trends that have been present in the market over the last few years (changing consumer behavior, development of direct sales channel, intermediary consolidation, focus on risk and control). However, most of all 2020 has been an unprecedented year from an underwriting perspective as a result of the COVID-19 pandemic.

Commercially Aegon Schadeverzekering P&C has actively played into the trend of market consolidation of both insurers as well as the consolidation of the independent financial advisor (“IFA”) market. Strong focus on profitable advisor portfolios with help of a market segmentation concept is successfully helping us to maintain a foothold in the IFA market, while also building on our digital and direct capabilities. Furthermore, a continued push towards digitization across all sales channels is ongoing, improving our efficiency and customer satisfaction. The pinnacle of these efforts has materialized in the Net Promotor Score shifting into the positive range during the year, ending the year 2020 at +3 (r-NPS) for Non-Life P&C.

Compared to 2019 - which was a year with a tremendously positive claim experience for the whole Non-Life P&C market - underlying claim levels have normalized in 2020. In February 2020 three consecutive weekends of (medium strength) storms hit the Netherlands: storms Ciara, Dennis and Ellen. These have impacted the property book of Aegon Schadeverzekering in the first quarter of 2020 but have been compensated by a healthy loss ratio in the remainder of the year. Then from March 2020 onwards COVID-19 started impacting the portfolio.

Most notable impact of COVID-19 has been on our Travel Insurance book, where initially expectations for claims mounted. This was due to the fact that our policies contained a cancellation cover which made holidays (booked in advance of the COVID-19 pandemic) eligible for a claim payout. The combination of astute business actions in customer guidance as well as necessary changes to the insurance cover have greatly limited our exposure in the earliest stages of the pandemic. All necessary changes were in place within two weeks after the World Health Organization officially declared COVID-19 a pandemic.

In the months that followed, the Crisis Management Team was provided with regular updates on the (expected and observed) impacts, which over time turned out to be manageable from both operational and financial perspective. Most notable driver behind the lower actual impact, is the nation-wide institution of travel vouchers by travel organizations which have covered the deferred holiday plans of people in the Netherlands. Our estimates are that roughly 90% of claims have been prevented by the broad adaptation of these vouchers. The vouchers have in the process also been covered by a guarantee fund strengthened by the Dutch government, providing surety for the consumers.

Throughout the rest of 2020, underwriting performance has been an unusual journey as lockdown measures came and went, traffic movement decreased, and people stayed at home more. Looking back there is some impact visible, however most product lines have generally shown normal patterns of claims with small intervals of decreased claim activity due to strict lockdown periods. Most notable is the claim development of travel insurance claims after the initial peak of (valid) COVID-19 cancellations. Claim activity was present in the summer holiday season, although lower than usual. But especially in the last quarter of 2020 incurred claims have fully stopped (as a result of low Christmas holiday travel).

Overall, the risk profile of the Non-Life P&C book has shown a stable positive development in 2020 which has further solidified steps made from structurally loss-making to an in-control insurer with a healthy loss ratio over the recent years. Profit margins of the non-life retail insurance market are still under pressure as a result of high competition. Aegon Schadeverzekering has achieved a substantial return improvement and has improved its portfolio strength considerably. The focus for the coming years is on achieving growth / scale (decrease costs per policy and collect & use more data) and the increasing the use of smart technology (by using advanced analytics) in both products offered as well as internal processes. Both are conditional for a sustainable and competitive business model. Furthermore, we retain strong focus on being “in control".

Income (Accident & Health) market

Aegon Schadeverzekering continuously looks for opportunities in the Income (Accident & Health) market: cooperating with service providers to further improve support to employers and entrepreneurs in dealing with absenteeism and disability in the best possible way and to reduce the number and volume of claims.

During 2020 the impact of COVID-19 also impacted the Non-Life Income market. Uncertainty around the potential impacts of the lockdown and lack of clarity of government support initially led a large spike in reported sick leave during the first lockdown. Effort was placed on helping employers deal with the registration, which led to a sharp and swift recovery of these registered cases in the sick leave portfolio.

The increased government support for employers (for example the 'NOW regeling') has offset any potential short-term impact on claim experience in the Accident & Health portfolio. The long-term effects are however still unclear, as most products contain waiting periods to dissect short term disability from long-term disability. One direct effect has been a slowdown in the commercial activity throughout the market, which has been observed in the commercial season leading up to 2021. Furthermore, a commercial decline in the individual disability market (insurance for self-employed) has been observed in the first half year of 2020. Further development of the market hinges on the duration of lockdowns and support offered to self-employed workers by government.

From an underwriting perspective an improvement has been made by starting the conversion of the individual disability (AOV) book to a new product offering. Competitive pressures remain, as well as market pressure as a result of government suspending obliged AOV.

In the Income market, Aegon Schadeverzekering has remained its commercial position, despite seeing increased market activity from (foreign) entrants as well as an increase in distribution through proxy holders. Cost efficiency and the optimization of the chain from customer to provider are still important drivers in the non-life market. Throughout these challenging conditions, focus remains on providing excellent service to employers and individuals. This is reflected in the Net Promotor Scores which have risen in 2020 for both group insurance and individual insurance customers. For the years to come, Aegon Schadeverzekering will continue its investments and specifically will continue to convert towards a digitalized all round service provider for absence and disability.

A.2. Underwriting performance

In this section we highlight the key attributors to the underwriting performance. The figures below are based on the IFRS annual report 2020 of Aegon Schadeverzekering.

Table: Underwriting Performance Aegon Schadeverzekering

Amounts in € million	**2020**	2019
1 Premium income	375	358
2 Commissions and expenses	-/- 123	-/- 117
3 Policyholders claims and benefits	-/- 276	-/- 209
4 Income before tax	-/- 9	36

1 Premium income

Premium income for 2020 amounts to € 375 million. The premiums increased in 2020 mainly due to higher premium income in the 'Accident and Health' segment.

2 Commissions and expenses

Commission and expenses increased due to higher recharged staff expenses to Aegon Schadeverzekering by Aegon Nederland.

3 Policyholder claims and benefits

Policyholder claims and benefits were significantly higher with € 276 million, compared to € 209 million in 2019. The increase is driven by several developments in the 'Accident and health insurance' portfolio, among others: the decrease in interest rates, several model changes, growth of the portfolio and parameter updates.

4 Income before tax

The income before tax in 2020 was a loss of € 9 million, compared to income before tax in 2019 of € 35 million. This is mainly due to the higher policyholder claims and benefits, as explained before. This is partly offset by the positive results from financial transactions; refer to section A.3 'Investment performance' for more information on this.

A.3. Investment performance

In this section the key attributors to the investment performance are presented. The figures below are based on the IFRS annual report 2020 of Aegon Schadeverzekering.

A.3.1. Breakdown of investments

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

Table: Breakdown financial assets

Amounts in € million	**2020**	2019
Debt securities	552	493
Loans	465	489
Other investments	0	0
Shares	252	252
Total	**1,269**	**1,234**

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	17	17
2 Results from financial transactions	3	-/- 8

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)	6	5
Loans (Interest)	15	16
Other investments (Interest)	-/- 4	-/- 4
Shares (Dividend income)	0	0
Total	**17**	**17**

2 Results from financial transactions

The results from financial transactions are further explained in the table below.

Table: Breakdown Results from financial transactions

Amounts in € million	**2020**	2019
Realized gains / (losses) on financial investments	0	1
Net fair value change of derivatives	7	-/- 8
Net fair value change on financial assets at fair value through profit or loss other than derivatives	0	-/- 1
Net foreign currency gains / (losses)	-/- 4	0
Total	**3**	**-/- 8**

Information about investment performance through equity is further explained in the table below.

Table: Investment performance through equity

Amounts in € million	**2020**	2019
Gains / (losses) on revaluation of available-for-sale investments	9	18
Net gains / (losses) transferred to income statement	0	-/- 1

The gains / (losses) on revaluation of available-for-sale investments and Net gains / (losses) transferred to income statement 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 are classified as available for sale, such as certain debt securities. The amounts disclosed are before tax.

A.4. Performance of other activities

Aegon Schadeverzekering 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. and several other companies, such as Aegon Schadeverzekering N.V. (hereafter: Aegon Schadeverzekering), 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 also forms the statutory board in charge of the day-to-day management of Aegon Schadeverzekering. Because Aegon Schadeverzekering 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 criticallity 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 VS, ESS and COE the reporting lines are as follows:

Departments	Reporting line to
VS Insured Pension	Chief Operating Officer
VS Accident & Health	Chief Operating Officer
VS P&C	Chief Operating Officer
VS Defined Contribution	Chief Operating Officer with regard to Aegon Levensverzekering N.V. CEO Aegon Cappital with regard to Aegon Cappital B.V.
VS Mortgages	Chief Operating Officer
VS 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 Heijt-majer	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 Schadeverzekering.
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 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 SF 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

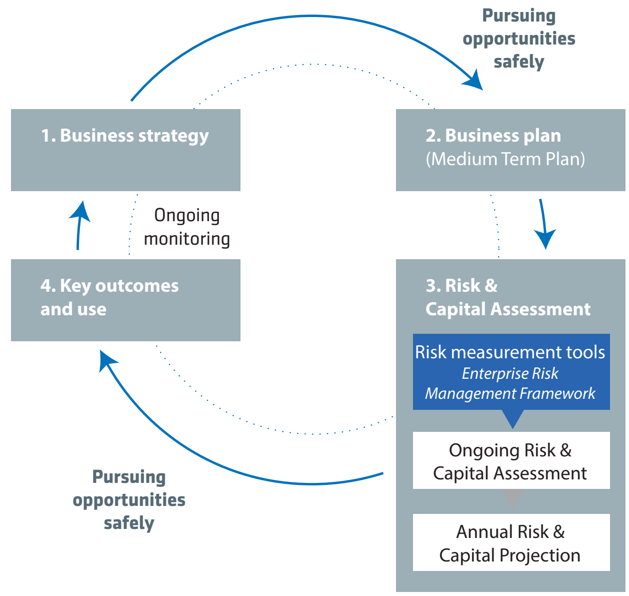
The Own Risk and Solvency Assessment ('ORSA') is a key internal process with key elements of the capital management and risk management processes, which support the business in pursuit of fulfilling its business strategy. The ORSA is presented and reviewed at least annually. Key sections are updated 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 Schadeverzekering is set. The financial strategy for Aegon Schadeverzekering 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 Schadeverzekering ;sPartial 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; and
4. "Use" applies across a spectrum of areas including Asset & Liability Modelling, product development and pricing.

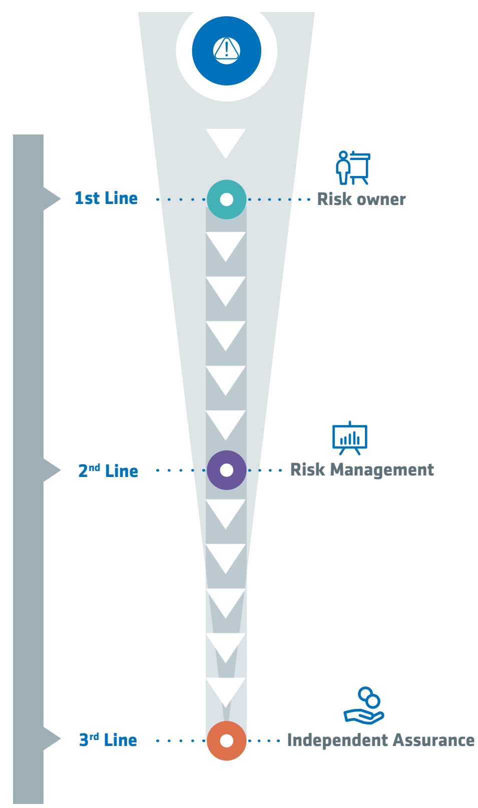


All of the above is evidenced and documented in Aegon Schadeverzekering's annual ORSA report.

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: Risks naturally arise out of Aegon Schadeverzekering'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, this 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 Schadeverzekering are employed at and have a labor contract with Aegon Nederland. This also means that Aegon Schadeverzekering 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

General

This section is outlined as follows. The first subsection describes the risk assessment and measurement that applies to all risk types, and in particular the SCR. The second subsection discusses the Solvency ratio, and the general approach to sensitivity analysis and stress testing. The third subsection outlines the identification and approach to Risk Concentrations. The Prudent Person Principle is described in the fourth subsection.

In subsections C.1 through C.5, more detailed information is provided on Underwriting, Market, Credit, Liquidity and Operational risk respectively. Finally, section C.6 comments on other risks and uncertainties.

Risk Assessment and Measurement: the Solvency Capital Requirement

The assessment of Aegon Schadeverzekering'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 Schadeverzekering's risk governance and risk tolerance statements. Aegon Schadeverzekering 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 to the Group policies.

Within the ERM Framework, risk exposures are identified and quantified using the Solvency II Standard Formula. The SF contains separate modules for Market Risk, Counterparty Default Risk, Underwriting risk, Operational Risk and Risk aggregation.

The SCR of Aegon Schadeverzekering is the minimum level of own funds required in accordance with Solvency II legislation, to absorb unexpected developments in all risk exposures of Aegon Schadeverzekering 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 Schadeverzekering will be able to meet obligations to policyholders with a likelihood of at least 99.5% over a period of one year.

The table below shows the components of the Standard Formula model of Aegon Schadeverzekering and the amounts of the main risk types in € million.

Net solvency capital requirement

Amounts in € million	**2020**	2019
Market risk	19	22
Counterparty default risk	10	11
Health underwriting risk	237	282
Non-life underwriting risk	46	44
Diversification	-/- 60	-/- 63
Operational risk	15	15
LAC DT	-/- 33	-/- 52
SCR	**232**	**259**

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 and 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 Standard Formula.

Furthermore, with regard to the methodology to derive the SCR, it should be noted that:
- 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.
- Further explanation on the LAC DT and diversification is provided in Section E.2.1.

Solvency Ratio, Sensitivity Analysis & Stress Testing

The Solvency ratio is the main indicator of the ability of Aegon Schadeverzekering to meet all of 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 at December 31, 2020 are shown below.

Table : Own Funds & SCR

Amounts in € million	Own funds	SCR	**Solvency Ratio December 31, 2020**
Solvency Ratio	409	232	176%

The current Solvency Ratio of 176% indicates that own funds are in excess of the minimum required level of the SCR as specified in Aegon Schadeverzekering'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 Schadeverzekering performs sensitivity analyses and stress testing on a regular basis in order 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 Schadeverzekering is assessed. For each sensitivity analysis, the immediate impact on Aegon Schadeverzekering's Solvency Ratio as per year-end 2020 is as follows:

Table: Overview of sensitivity analyses

Scenario	**Change to Solvency ratio in Scenario**
Morbidity + 10%	-/- 43%
Interest rate curve + 0.5%	+ 8%
Interest rate curve -/-0.5%	-/- 8%
Credit Spreads non-gov + 0.5%	-/- 5%
Credit Spreads non-gov -/- 0.5%	+ 5%
Government spreads + 0.5%	-/- 7%
Government spreads -/- 0.5%	+ 8%
Equity markets + 25%	-/- 0%
Equity markets -/- 25%	0%
Mortgage Spreads + 0.5%	-/- 4%
Mortgage Spreads -/- 0.5%	+ 4%
EIOPA VA + 5 bps	+ 2%
EIOPA VA -/- 5 bps	-/- 2%
Loss Absorbency Factor -/-25%	-/- 12%
UFR -/- 0.15%	0 %

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

Extreme Event Scenarios

Aegon Schadeverzekering develops extreme events scenarios on an annual basis. These scenarios are based on the position of Aegon Schadeverzekering on June 30 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 multiyear business planning period. Scenarios considered are for example a severe recession, adjustments to the Volatility Adjustment (VA), 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 analyzed, taking into account the mitigating impact of management actions or other applicable measures.

Risk Concentrations - Identification & Approach

Aegon Schadeverzekering 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 pandemic that may cause a large number of disabled people simultaneously.

Specific attention to concentration risk is needed in case its impact is not yet 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 there is no SCR for the risk in question, 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: Underwriting, Market, Credit, Liquidity & 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 Schadeverzekering, 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 and detailed further in 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 exposure limits for Investment and Counterparty Risk;
- The Currency Risk Policy limits the amount of currency risk allowed;
- Concentrations in exposures are avoided by testing extreme 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 through 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 Schadeverzekering 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 Schadeverzekering holds investments. Within the Aegon Nederland holding, of which Aegon Schadeverzekering forms part, mortgage loans have been originated and serviced for over thirty years. As a consequence, considerable expertise exists within Aegon Nederland in these areas.

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

Within Underwriting Risk, a distinction is made between Health underwriting and Non-life underwriting risk, where Health underwriting risk is further split in Health similar to life techniques ("SLT"), Health non similar to life techniques ("non-SLT") and Health Catastrophe. Aegon Schadeverzekering has identified the following risk types that are material:

Table: Underwriting Risk types

Risk Type	Description
Health SLT – Longevity	The risk that improvements in life expectancy result in higher than expected claim payments.
Health SLT – Disability & morbidity	The risk that disability rates are higher or recovery rates are lower than expected.
Health SLT – Lapse	The risk that lapse rates are higher or lower than expected resulting in lower profits and/or higher claim payments including guaranteed returns.
Health SLT – Expenses	The risk that the value of future expenses is higher than expected resulting in lower profits.
Health SLT – Revision	The risk that annuity payments need to be revised following a change in the health status of the insured people.
Health non-SLT – Premium & reserve	The risk that premiums rates are set to low or best estimate reserves are set inadequately.
Health – Catastrophe	The risk of a mass accident, accident concentration or pandemic event.
Non-life – Premium & reserve	The risk that premiums rates are set to low or best estimate reserves are set inadequately.
Non-life – Catastrophe	The risk of a natural disaster, like windstorm or hail, or a man-made catastrophe.

The SCR for Health SLT Underwriting risk amounts to € 237 million (2019: € 282 million) and for Non-life and Health non-SLT Underwriting risk amounts to € 46 million at the end of 2020 (2019: € 44 million), before tax and diversification benefits. Within Health SLT Underwriting Risk, Disability & morbidity is the dominant risk. Within Non-life and Health non-SLT Underwriting Risk, Premium & reserve is the dominant risk.

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

C.1.2. Risk Concentrations

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

C.1.3. Risk mitigation techniques used for underwriting risks

Reinsurance contracts are contracts entered into by Aegon Schadeverzekering in order to receive compensation for losses on contracts written by Aegon Schadeverzekering (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance recoverable is recognized for the best estimate future cashflows, adjusted for the expected counterparty default. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Aegon Schadeverzekering 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 market value balance sheet.

Aegon Schadeverzekering only reinsures its property, general third party liability, disability and motor third-party liability business. The main counterparties are Hannover Re and SCOR Re Europe. For property insurance, an 'excess of loss' contract is in place with a retention level of € 350,000 for each separate risk, and € 2.5 million for each windstorm event. For motor third-party liability insurance, Aegon Schadeverzekering has reinsurance in place with a retention level of € 750,000 per event. For general third-party liability, Aegon Schadeverzekering has reinsurance in place with a retention level of € 350,000 per event. In 2018, a reinsurance agreement for disability (WIA Excedent) was signed with Munich Re. The structure of the reinsurance agreement is:

- a quota share of 95% for the annual income portions up to and including € 100,000;
- a quota share of 10% for benefits related to the annual income portions above € 100,000.

As of 2021 a reinsurance agreement for disability (AOV individual) is effective. The structure of the reinsurance agreement is a quota share of 60% for all claims that occur after December 31, 2020.

The effectiveness of the reinsurance program is annually monitored by the Actuarial Function holder and reported in the Actuarial Function holder report.

C.1.4. Risk sensitivity for underwriting risks

The main underwriting risk Aegon Schadeverzekering is exposed to is Morbidity risk, i.e. the risk that more insured people become disabled. With more insured people disabled, more people receive benefits from their policy.

In the scenario shown below, average morbidity rates increase by 10% in all future years. This scenario is not a part of the quarterly update. These are the results of the bi-annual calculation per September 30, 2020.

Scenario	**Change to Solvency ratio**
10% increase in Morbidity Rates	-/- 43%

Expected future benefits to policyholders increase markedly. 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 43% points.

C.2. Market risk

C.2.1. Description of the measures used to assess market risks

The SCR for Market risk amounts to € 19 million at the end of 2020, before tax and diversification benefits. Within Market risk, Credit risk is the dominant risk.

To align with the SCR in QRT S.26.01 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 (market risk concentration) risk related to financial investments. To align with QRT S.26.01 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 falls 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.

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

Interest rate risk (Mismatch risk)

Aegon Schadeverzekering is exposed to interest rate risk, as both its assets and liabilities are sensitive to movements in long- and short-term interest rates. Aegon Schadeverzekering bears interest rate risk in its health (similar to life) 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.

Equity market risk and other investments risk

A decline in equity markets may adversely affect Aegon Schadeverzekering's profitability and shareholders' equity. Declining market values of equity investments constitutes a risk only for Aegon but not for its customers. The existence of direct equity risk is very limited, as defined by Aegon Schadeverzekering's Risk policies.

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 Schadeverzekering specifically manages concentration risk within the investment portfolio to mitigate concentration risks. Where concentration risks exist nonetheless, an additional amount of SCR is determined.

C.2.3. Risk mitigation techniques used for Market risks

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

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, Government Spreads and Equity Prices:

1 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 Schadeverzekering'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 Scenario**
Interest rate curve + 0.5%	+ 8%
Interest rate curve -/- 0.5%	-/- 8%

In the scenario where interest rates rise by 0.5% point, the solvency ratio increases by 8% points due a slight reduction of the own funds combined with a larger reduction of the SCR. Own funds decrease slightly as the value of government bonds, derivatives and mortgages decline, and the decline is largely offset by a reduction in the value of technical provisions. The SCR also drops, as the shock scenarios used in the derivation of the SCR are applied to lower base values of asset and liabilities.

Conversely, in the scenario where interest rates fall by 0.5% point, the value of own funds increases somewhat but the SCR increases considerably. Consequently, the Solvency ratio declines by 8% points.

2 Sensitivity to Non-Government Credit Spreads

In this scenario, Credit Spreads on mortgage loans, other loans and bonds, other than government bonds, increase (decrease) by 0.5% point.

The increase (decrease) in credit spreads results in a lower value of the Mortgage and Corporate bond portfolios.
Consequently, the value of own funds decreases.

The impact of this scenario is shown below.

Scenario	**Change to Solvency ratio in Scenario**
Credit Spreads non-gov + 0.5%	-/- 5%
Credit Spreads non-gov -/- 0.5%	+ 5%

3 Sensitivity to Mortgage Credit Spreads

In this scenario, credit spreads on mortgage investments increase by 0.5%. All other assumptions, including the VA that impacts the liabilities, remain unchanged.

Own funds decrease due to a lower value of the Mortgage Portfolio. The SCR is not impacted in this scenario. In total, the Solvency ratio decreases.

Scenario	**Change to Solvency ratio in Senario**
Mortgage Spreads + 0.5%	-/- 4%
Mortgage Spreads -/- 0.5%	+ 4%

4 Sensitivity to Government Spreads

In this scenario, credit spreads on government bonds increase (decrease) by 0.5%. All other assumptions, including the VA that impacts the liabilities, remain unchanged.

Own funds decrease due to a lower value of the Mortgage Portfolio. The SCR is not impacted in this scenario. In total, the Solvency ratio decreases.

Scenario	**Change to Solvency ratio in Senario**
Government Spreads + 0.5%	-/- 7%
Government Spreads -/- 0.5%	+ 8%

5 Sensitivity to increase (decrease) in Equity prices by 25%

In these scenarios, an overall increase (decrease) of all equities on the balance sheet of Aegon Schadeverzekering is assumed. As equities are predominantly held for account of policyholders, the impact of changes in equity values on the solvency ratio of Aegon Schadeverzekering is limited.

Scenario	**Change to Solvency ratio in Senario**
Equity Markets + 25%	-/- 0%
Equity Markets -/- 25%	+ 0%

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 has a small effect on the technical provisions.

Scenario	**Change to Solvency ratio in Senario**
EIOPA VA + 5 bps	+ 2%
EIOPA VA -/- 5 bps	-/- 2%

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.26.01 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.26.01 consistent throughout the SFCR, these other components of credit risk are discussed instead in section C.2 Market risk.

The SCR for Counterparty Default risk amounts to € 10 million at the end of 2020, before tax and diversification benefits.

Aegon Schadeverzekering is exposed to Counterparty Default risk on placements of over-the-counter derivatives and reinsurance as well as outstanding balances on current accounts with major banks.

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 Schadeverzekering 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 risks embedded in derivatives transactions are contained with strong collateral processes that Aegon Schadeverzekering 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..

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

Aegon Schadeverzekering 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 Schadeverzekering to meet all potential cash demands.

Stress Testing for Liquidity Risks
The liquidity position is tested at least 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 percentage points, which increases linearly to 3.0 percentage 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 percentage 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	518	456	1,433
Required Liquidity	9	29	702
Excess Liquidity	509	427	731

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
No specific risk mitigation techniques other than the reinsurance contracts, in the form of contracts with third parties, are currently in place for liquidity risk exposures.

C.4.4. Expected Profits in Future Premiums (EPIFP)
EPIFP reflects the current value of the net cash flows 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 Schadeverzekering, 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 Profits in Future Premiums (EPIFP) amounts to € 10 million at the end of 2020, the impact on the liquidity position is rather 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 Schadeverzekering.

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 using the standard formula under Solvency II, and amounts to € 15 million at the end of 2020. It is based on volumes of premiums and technical provisions. Additional measures have been developed internally for the day-to-day management and assessment of Operational risks.

Aegon Schadeverzekering 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:

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 Schadeverzekering'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 result or results in a disadvantage to Aegon Schadeverzekering 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 is 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 Schadeverzekering'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 Schadeverzekering's reputation, or hinder Aegon Schadeverzekering's operational effectiveness.

Aegon Schadeverzekering's approach to operational risk assessment is based on scenario analysis. Aegon Schadeverzekering 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 Schadeverzekering'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 a reinsurer, modeling 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 of the OCRM risk framework 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 is performed in the form of scenario analysis as described above.

C.6. Other Material Risks & Uncertainties

Aegon Schadeverzekering 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 factor;
2. Adjustments to the UFR, which is relevant for Aegon NL however not relevant for Aegon Schadeverzekering.

C.6.1. Loss Absorbing Capacity of Deferred Taxes

An indirect risk that is considered by Aegon Schadeverzekering is an adjustment to the LAC DT factor, 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%	-/- 12%

In this scenario, own funds are not affected as no loss or change in value of assets or liabilities is assumed. Only the SCR increase 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 12% 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%	0%

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 does not change 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). 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. Whilst Aegon Schadeverzekering has seen higher incurred claims and claims handling expenses over 2020, there is currently insufficient credible experience with which to update actuarial assumptions for COVID-19 specifically. Aegon Schadeverzekering incurred € 3 million non-life claims from travel insurance due to the COVID-19 crisis.

D. Valuation for Solvency Purposes

In chapter D the valuation for Solvency purposes is disclosed and the differences with the valuation under IFRS in the annual report are addressed. The balance sheet is that of Aegon Schadeverzekering on a stand-alone basis, in alignment with Solvency II regulation concerning disclosure of QRT S.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**
Investments (other than assets held for index-linked and unit-linked contracts)	D.1.2.1	841	835
Equities	D.1.2.2	3	3
Equities – listed		0	0
Equities – unlisted		3	3
Bonds	D.1.2.3	556	552
Government Bonds		311	275
Corporate Bonds		246	277
Collateralized securities		0	0
Collective Investments Undertakings	D.1.2.4	248	248
Derivatives		33	31
Loans and mortgages	D.1.2.5	530	486
Loans and mortgages to individuals		386	346
Other loans and mortgages		145	139
Reinsurance recoverables from	D.2.7	28	22
Non-life excluding health		4	5
Health similar to life		24	18
Deposits to cedants		0	0
Insurance and intermediaries receivables		2	2
Receivables (trade, not insurance)		4	4
Cash and cash equivalents		186	186
Any other assets, not elsewhere shown		0	7
Total assets		**1,591**	**1,542**

Liabilities	Section	Solvency II value	Statutory accounts value
Technical provisions – non-life	D.2	184	161
Technical provisions – non life (excluding health)		112	114
Best estimate		106	
Risk margin		6	
Technical provisions – health (similar to non-life)		72	47
Best estimate		65	
Risk margin		7	
Technical provisions - life (excluding index-linked and unit-linked)	D.2	905	915
Technical provisions - health (similar to life)		905	915
Best estimate		859	
Risk margin		46	
Deferred tax liabilities	D.3.1.1	18	9
Derivatives	D.3.1.2	51	48
Financial liabilities other than debts owed to credit institutions		3	3
Insurance & intermediaries payables	D.3.1.3	4	4
Reinsurance payables		2	2
Payables (trade, not insurance)	D.3.1.4	17	16
Any other liabilities, not elsewhere shown		0	2
Total liabilities		**1,182**	**1,160**
Excess of assets over liabilities		**409**	**382**

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
Investments (other than assets held for index-linked and unit-linked contracts)	D.1.2.1	841	835	6
Equities	D.1.2.2	3	3	0
Equities – listed		0	0	0
Equities – unlisted		3	3	0
Bonds	D.1.2.3	556	552	4
Government Bonds		311	275	36
Corporate Bonds		246	277	-/- 32
Collateralized securities		0	0	0
Collective Investments Undertakings	D.1.2.4	248	248	0
Derivatives		33	31	1
Loans and mortgages	D.1.2.5	530	486	45
Loans and mortgages to individuals		386	346	39
Other loans and mortgages		145	139	5
Reinsurance recoverables from	D.2.7	28	22	6
Non-life excluding health		4	5	-/- 1
Health similar to life		24	18	7
Deposits to cedants		0	0	0
Insurance and intermediaries receivables		2	2	0
Receivables (trade, not insurance)		4	4	0
Cash and cash equivalents		186	186	0
Any other assets, not elsewhere shown		0	7	-/- 7
Total assets		**1,591**	**1,542**	**49**

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 the annual report of Aegon Schadeverzekering, 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 Schadeverzekering uses the following hierarchy for measuring and disclosing the fair value of assets:

- **Level I:** quoted prices (unadjusted) in active markets for identical assets that Aegon Schadeverzekering 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 judgment used in measuring the fair value of assets generally negatively correlates with the level of observable valuation inputs. Aegon Schadeverzekering 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 Schadeverzekering, 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)

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 € 841 million. The IFRS balance sheet contains an investment position of € 835 million. 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 Schadeverzekering 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 Schadeverzekering; 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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of Aegon Schadeverzekering's 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.1.2.2. Equities

The Solvency II and the IFRS balance sheets both measure equities at fair value. Per year end 2020, it amounts to € 3 million.

D.1.2.3. Bonds

The Solvency II and the IFRS balance sheets both measure bonds at fair value. The Solvency II balance sheet contains bond positions of € 556 million. The IFRS balance sheet contains bond positions of € 551 million. The Solvency II balance sheet is € 4 million higher. The valuation is the same, the only difference is a reclassification of accrued interest from Any other assets.

D.1.2.4 Collective Investment Undertakings

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

Both the Solvency II and IFRS balance sheets contains an investment funds position of € 248 million.

Investment funds managed by Aegon Schadeverzekering, in which Aegon Schadeverzekering holds an interest, are consolidated in the financial statements if Aegon Schadeverzekering has a dominant influence 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 Schadeverzekering in the fund are considered.

Aegon Schadeverzekering concluded, for all investment funds, that it does not exercise control, as Aegon Schadeverzekering 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.1.2.5. 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 mortgages follows the following steps:

1. Projection of future cash flows of mortgage loans;
2. Determination of the interest rate curve to use for discounting;
3. Net present value 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 is based on a historical analysis and assessment of market circumstances.

The interest rate curve used for discounting is determined by applying a spread over the risk free yield curve, which is constant over the maturity of the term structure. The spread for 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 expenses of originating and servicing 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 (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 repayment is compared annually against actual repayment 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 portfolio transactions conducted by Aegon Asset Management as well as other transactions. The margin is verified annually on the basis of the most recently completed transactions.

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 bond 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 € 39 million higher due to the revaluation of Loans and Mortgages to fair value and € 5 million higher due to reclassification of accrued interest from Any other assets.

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).

Liabilities	Section	Solvency II value	Statutory accounts value	Difference
Technical provisions – non-life	D.2	184	161	23
Technical provisions – non life (excluding health)		112	114	-/- 2
Best estimate		106		
Risk margin		6		
Technical provisions – health (similar to non-life)		72	47	26
Best estimate		65		
Risk margin		7		
Technical provisions - life (excluding index-linked and unit-linked)	D.2	905	915	-/- 10
Technical provisions - health (similar to life)		905	915	-/- 10
Best estimate		859		
Risk margin		46		

The provisions are split in Technical provisions – Non-Life, which is further divided in Non-Life (excluding health) and Health (similar to non-life), and Technical provisions – Life with regard to the technical provisions Health (similar to life).

General description of the reserving methodology

Non-life

The technical provisions for Non-life and Sick leave insurance are updated quarterly by calculating a best estimate claims reserve, premium reserve and risk margin. The calculation of the claims provisions and the premium provisions is described in the next sections.

Claims provisions

The best estimate claims provisions are calculated with standard triangle reserving techniques. Figures concerning paid and incurred claims, costs and salvage and subrogation are updated for each homogenous risk group (“HRG”). For both the paid and incurred amounts, including costs and accounting for salvage and subrogation, two related methods are applied:

1. 1. a development factor method, consisting of the linked ratio method and a method to calculate an appropriate tail factor; and
2. the Bornhuetter-Ferguson method, which takes into account an initial expectation of the ultimate claim amount and the outcomes of the development factor method.

In general, claims data over the past five years are used to set development factors for determining the best estimate claims reserves. In order to determine a claims reserve for a HRG, the results of these methods are compared with each other. For each accident year, the result which is considered most appropriate is chosen. Based on the selected ultimate claim amounts and accompanying payment patterns the best estimate claims cash flows are estimated.

Premium provisions

The best estimate premium reserves are determined based on the simulated cash flows stemming from a distribution for attritional, large and catastrophe claims. The parameterizations of the attritional and large loss distributions are based on historical claim amounts. Distributions for catastrophic claims concerning storm risk are simulated by using externally provided data.

AOV

The best estimate claims and premium provisions for AOV are based on a Markov chain projection of the expected premiums, claims, expenses and commissions. The model uses transition probabilities (inception, recovery, mortality and lapse) that are based on historically observed statistics in the Aegon portfolio.

The premium refund provisions are calculated in a separate projection model. The model projects the expected value of invested premiums to the end date of the contract. This value is used to derive the expected premium refund. The best estimate provisions equal the present value of the expected refund, calculated with best estimate mortality and disability assumptions.

For part of the AOV portfolio, namely for collective contracts, IBNR reserves are calculated to account for late reported claims in the three most recent accident years. The IBNR reserves are estimated with a loss ratio method based on historical average loss ratios.

WIA

The best estimate claims and premium provisions for WIA are based on a Markov chain projection of the expected premiums, claims, expenses and commissions. The transition probabilities are derived from industry wide transition parameters provided by the Dutch Association of Insurers. These parameters constitute a system of probabilities, which specifies inception and transition rates between various disability states, as well as mortality rates.

The total best estimate liabilities ("BEL") for WIA comprises of the present value of cash flows (the sum of claims, expenses, and commissions minus premiums) concerning both the disabled and active policyholders. The claims provisions are based on the BEL for disabled policyholders, whereas the premium provisions are based on the BEL for the active policyholders.

Since there is substantial period of time (often two years) between the moments at which a policyholder becomes disabled and when this policyholder receives its first benefit under the WIA coverage, IBNR is incorporated in the BEL for disabled policyholders. The IBNR is calculated with triangle techniques based on the incurred claims per accident quarter. The incurred claims are equal to the paid claims plus the outstanding claims reserves. The following three methods are applied:

1. a development factor method, consisting of the linked ratio method and an appropriate tail factor (used for the eight oldest accident quarters);
2. an initial expectation method, in which the ultimate claim amount is based on an expected loss ratio (used for the 10 most recent accident quarters for which due to the waiting period of two years, limited information is available); and
3. the Bornhuetter-Ferguson method (used for all intermediate quarters.

Apart from claims data that are considered to be outliers such as years with insufficient volume, claims data over all available years are used to set development factors for determining the best estimate claims reserve.

Underlying assumptions

Non-life

Claims provisions

The key assumption of triangle techniques that are used for the claims provisions is a stable ratio between the development-columns of consecutive claim years of the paid and incurred triangles.

Premium provisions

The methodology used for the premium provisions assumes that the expected future claims can be estimated by separate probability distributions for attritional, large and catastrophe losses. This is a common approach for the modeling of future claims.

AOV

The most important non-economic assumptions in the valuation of the AOV product are the morbidity assumptions. These assumptions consist of the incidence (disability) and reinstatement (recovery) rates, which are estimated based on the Aegon portfolio.

The AOV lapse rates are also estimated based on the Aegon portfolio. The mortality rates that are applied in the valuation of the AOV portfolio are deduced from the UR1 Population Mortality table.

WIA

Similar to AOV, the morbidity assumptions are the most important non-economic assumptions in the valuation of the WIA product. For these assumptions, the inception rates and transition rates between different disability states from the model of the Dutch Association of Insurers (Verbond van Verzekeraars). This model determines the disability rates based on several characteristics of a participant.

Assumptions regarding the residual earnings capacity in case of a change in disability state are set in line with market practice. The mortality rates for WIA are determined analogous to those for AOV, where the duration of the WIA claims cash flows are used.

Expense parameters

The developments of both the Non-Life, AOV and WIA portfolios have shown a constant pattern for the last few years, which means that the size of the portfolio has remained roughly the same. The same is expected to hold for future years. For this reason, there is no need to split the expenses into fixed and variable expenses, i.e. all expenses are assumed to be entirely variable.

The expense assumptions are updated annually based on budget figures. For all products of Aegon Schadeverzekering, the expense assumptions for the best estimate liabilities are split by maintenance expenses, first expenses and claims handling expenses. For each product separately, the total expense amounts of these components are based on the Activity Based Costing (ABC) model.

Furthermore, investment expenses are added to the best estimated liability. The Corporate Center Expenses (CCE) are also partly included in the expense components.

Risk Margin

The Solvency II Technical Provisions equal the sum of the Best Estimate Liabilities and the Risk Margin ("RM"). The risk margin is the market consistent value of the variability around best estimate assumptions for a non-hedgeable risk. It is the price at which Aegon expects to be able to offload the uncertainty of cash flows around their best estimate for a non-hedgeable risk onto the market. The RM cannot be directly observed. It can be valued using a variety of techniques, including stochastic modeling, cost of capital method, or other methods.

Cost of Capital method

For Solvency II purposes, the method is mostly prescribed and commonly referred to as the Cost of Capital ("CoC") method. The concept underlying the CoC method is to calculate current and future risk capital amounts (SCR) for non-hedgeable risks. The RM is then calculated as the present value of the cost of financing these current and future risk capital amounts. Aegon Schadeverzekering approximates the projected SCRs for RM purposes by projecting SCRs by risk/product combination based on the Best Estimate Liability ("BEL") by product (i.e. simplification method I).

The calculation of the risk margin takes place per product group. Non-life and Health non-SLT are combined in one product group, the other product groups are AOV and WIA. A small proportion of the risk margin is scaled for non modeled reserves. Scaling is applied on the final outcomes.

Non-life

The risk margin calculation is based on a cost-of-capital method applied to a projection of the Standard Formula SCRs associated with Non-life and Health non-SLT. The SCRs, which are relevant for calculating the risk margin, are premium and reserve risk, catastrophe risk, counterparty default risk (through reinsurance contracts), lapse risk and operational risk. Diversification between the different risks is taken into account by using the standard formula diversification on the total Aegon Schadeverzekering level, i.e. including the diversification with Health SLT. Aegon has adopted the best estimate reserves as risk driver for the runoff of the future SCRs. Note that the application of the risk driver is a simplification compared 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.

The risk margin is calculated for each Line of Business separately and then aggregated. However, some risks are calculated on a total level. These risks are divided between the Lines of Business ("LoBs") in the following way:

- Counterparty Default Risk: the CDR is allocated to the LoBs according to the catastrophe risk per LoB. Only LoBs where reinsurance is applicable get part of the CDR.
- Operational risk: for Operational Risk the net best estimate outstanding claims are used to divide the risk over the LoBs.

Health SLT (AOV + WIA)

The risk margin for Health SLT is split between AOV and WIA. The risk margin calculation is based on a cost-of-capital method applied to a projection of the Standard Formula SCRs associated with Health SLT. The SCRs, which are relevant for calculating the risk margin, are Health catastrophe risk, longevity risk, disability risk, lapse risk, expenses risk, revision risk and operational risk. Diversification between the different risks is taken into account by using the standard formula diversification on the total Aegon Schadeverzekering level, i.e. including the diversification with Non-life and Health non-SLT. Aegon has adopted the best estimate reserves as risk driver for the runoff of the future SCRs for most of the risks.

The table below shows the risk margin for each line of business (in € million).

Line of Business	**Risk margin**
P&C incl. Health non-SLT	7
Health SLT	46

Contract boundaries

Non-life

For all Non-life business, the legal contract duration is 1 year. As the policies are renewed yearly, and policy terms and conditions can be changed at renewal date, the renewal date is taken as contract boundary. This means that the policies are projected until the contract renewal date and on average this is a period of 0.5 year. The assumptions made are that all policies are renewed yearly and the renewal dates are evenly distributed over the year. Because the model used to calculate the best estimate liabilities is a portfolio model, specific characteristics of individual policies are not taken into account.

For Sick leave insurance, a contract boundary of 3 years is used. An even distribution of the end date over the years is assumed. The premiums in the projection are indexed with 2% per year.

AOV

The contract boundary that is used for the best estimate projection of AOV insurance is three years. The contract boundary is based on internal research and reflects the term that Aegon believes is needed to bring premium levels in line with the underlying risks in case of a significant change of the risk profile in the portfolio.

WIA

All WIA contracts have a fixed contract term between one to three years. For each contract, the contract end date is used as contract boundary in the projection model.

Simplification methods

Non-life

For outstanding claims, reinsurance is not incorporated in the simulation model. It is assumed that the ratio between gross and net claims reserves in the accounting figures also applies to the best estimate numbers.

The best estimate technical provisions are scaled to take into account all claims reserves, including those reserves that are not in the claim triangles used for reserving. For LoBs Transport and Miscellaneous, the best estimate claims reserves are fully based on the case reserves. The limited size of these LoBs does not allow for proper application of triangle techniques.

AOV

A simplification is used for all business covered in HRG “Other income protection”. The technical provisions for this HRG are taken into account through scaling. Approximately 0.5% of the total best estimate provisions for AOV are scaled. Compared to 2019 the PVI portfolio is now modelled and moved to WIA.

WIA

The final technical provisions include the following simplifications. Profit sharing is not explicitly modeled and taken into account through scaling. The impact of this simplification is low, 0.2% of the best estimate, because there is only one contract with a profit sharing clause. A scaling factor is applied for policies and premiums that are not fully included in the model input files. This concerns a small proportion of the portfolio.

D.2.2. Uncertainty associated with the value of technical provisions

The valuation of technical provisions is based on model settings and parameter estimates, which reflect unknown future developments and therefore give rise to uncertainty. In addition, scaling has been applied to some smaller portfolio segments for which accurate portfolio data are incomplete or not available at all.

Main uncertainties affecting technical provisions relate to disability and recovery rates, cancellation rates, expense levels and scaling. The impact of these uncertainties has been assessed by varying the impacted parameters within a reasonable range of possible outcomes. Refer to chapter C for sensitivity results.

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

Non-life

There are two main differences in the valuation methodology between Solvency II and the statutory accounts:

- In the statutory accounts the premium reserve equals the unearned premium reserves. This amount is entirely based on book value. The Solvency II premium reserves are based on all future expected cash flows (premiums, claims and expenses) within the contract boundary.
- In Solvency II a risk margin is held on top of the best estimate reserves. This risk margin is calculated using a cost of capital method. In the statutory accounts the risk margin is not applicable but instead a prudency margin is added to the technical provisions. The prudency margin is calculated using a bootstrap method and reflects the uncertainty in the claims provisions.

AOV

There are three main differences in methodology between Solvency II and the statutory accounts:

- In the statutory accounts, the total premium reserves consist of the unearned premium reserves plus the present value of future premiums and claims based on tariff assumptions

(WVV). The Solvency II premium provisions are a best estimate projection of all claims, expenses and premiums for active members within the contract boundary.

- In the statutory accounts, the claims reserves for part of the AOV portfolio (AOV Individueel) are calculated policy by policy using present value factors that are based on prudent assumptions and a fixed discount rate. In Solvency II the claims reserves for AOV Individueel are calculated based on best estimate assumptions. For the remaining part of the AOV portfolio (AOV Collectief) the statutory accounts reserves are based on best estimate assumptions, which means for this part of the portfolio there is no difference between the valuation in both reporting frameworks.
- In Solvency II, a risk margin is held on top of the best estimate reserves. This risk margin is calculated using a cost of capital method. In the statutory accounts, the risk margin is not applicable. Instead, a prudency margin is included in the claims reserves (see previous bullet).

WIA

There are three main differences in methodology between Solvency II and the statutory accounts:

- In the statutory accounts for the premium reserves only the unearned premium reserves are used. In Solvency II also expected profit in future premiums is taken into account.
- In Solvency I,I the IBNR reserve is calculated as a best estimate of the ultimate claims based on developments in the own portfolio. In the statutory accounts, the IBNR reserve is set on a more prudent basis and the ultimate claims are based on a 70% percentile estimation using a Mack approach. In addition, the estimates for WGA Aanvulling are partly based on nationwide inception rates, which are generally higher than the observed inception rates in the own portfolio. Furthermore, an additional prudency margin for data uncertainties is taken into account.
- In Solvency II, a risk margin is held on top of the best estimate claims reserves. This risk margin is calculated using a cost of capital method. In the statutory accounts, the risk margin is not applicable.

Difference between IFRS and Solvency II measurement

In the technical provisions for non-life and health non-SLT there is a revaluation of € 23 million and in the technical provisions for health SLT there is a revaluation of -/- € 10 million. These differences in technical provisions are the effect of moving from prudent IFRS provisions to market value technical provisions. In this effect, the change from unearned premium reserves to best estimate cash in and outflows within the contract boundary is included in the premium reserves. Furthermore, all prudence from the claims provisions is excluded. Also, the impact of discounting is taken into account. Finally, these adjustments are partly offset with the inclusion of the risk margin. These revaluations also have impact on the deferred tax liability.

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 Schadeverzekering does not to apply the matching adjustment.

D.2.5. Volatility adjustment

The Volatility Adjustment ('VA') is applied by Aegon Schadeverzekering and is equal to 7 basis points at year-end 2020 (7 bp at year-end 2019). 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.

The impact of the application of the VA on the several SII metrics is as follows:

Solvency II	Technical provision	Own Funds	SCR	Ratio	MCR	Eligible OF to meet MCR
Aegon Schadeverzekering Q4 2020	1,090	409	232	176%	101	409
VA spread	5	-/- 4	0	-/- 2%	0	-/- 4
Aegon Schadeverzekering Q4 2020 without VA	1,095	405	232	174%	102	405

D.2.6. Transitional risks-free interest rate-term structure

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 (articles 308c and 308d of Directive 2009/138/EC). Aegon Schadeverzekering decided not to apply these transitional measures.

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

The outstanding recoverables from reinsurers at the end of 2020 are as follows:

Table: Lines of business (in € million)

Balance Sheet	**Outstanding recoverables BE Premium Provisions**	**Outstanding recoverables BE Claims Provisions**
Motor vehicle liability insurance	-/- 0.2	1.8
Other motorinsurance	0.1	1.0
Fire and other damage to property insurance	-/- 0.5	1.4
General liability insurance	-/- 0.1	0.6
Health similar to Life	11.5	12.8
Total	**10.8**	**17.7**

For Property and Casualty lines of business, the recoverables from reinsurers are calculated by applying the ratio between outstanding recoverables and outstanding claims reserves to the best estimate claims reserves for outstanding claims. For future claims, the recoverables from reinsurers are calculated per claim based on the reinsurance program. A default rate is applied to take into account the possibility that the reinsurer will not pay.

For Health SLT the reinsurance recoverables under Solvency II are calculated by modelling the best estimates with and without the reinsurance contract.

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

Non-life

The Solvency II technical provisions only had a small increase of € 1 million, no special events in 2020 that resulted in large movements. The annual parameter updates did not have a significant impact.

AOV

The AOV technical provisions did not have significant movements in 2020.

WIA

The main driver for the increase of the Solvency II technical provisions is the modelling of the PVI portfolio during 2020 and the annual parameter updates, with a total impact of + € 61 million.

Non modelled Health SLT

The non-modeled part of the Best Estimate Liabilities of the AOV and WIA business decreased with € 47 million. This decrease in non-modelled business is mainly caused by modelling the PVI portfolio.

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)

Liabilities	Section	Solvency II value	Statutory accounts value	Difference
Deferred tax liabilities	D.3.1.1	18	9	+ 9
Derivatives	D.3.1.2	51	48	+ 2
Insurance & intermediaries payables	D.3.1.3	4	4	+ 0
Reinsurance payables		2	2	-/- 0
Payables (trade, not insurance)	D.3.1.4	17	16	-/- 0
Any other liabilities, not elsewhere shown		0	2	-/- 2

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. Deferred tax liabilities

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 forwards 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. Periodic management reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets can be realized. These strategies are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectation of Aegon Schadeverzekering concerning the manner of recovery or settlement.

Reconciliation difference IFRS to Solvency II: Revaluation Adjustments

IFRS to Solvency II reconciliation of deferred tax items should comprise of DTA and DTL adjustments reflecting the tax impact of all individual revaluations processed for all components of the Balance Sheet. The Solvency II balance sheet contains a Deferred Tax Liability position of € 18 million. The IFRS balance sheet contains a Deferred Tax Liability position of € 9 million.

The revaluation of the DTL (€ 9 million) from IFRS to Solvency II relates to the tax on the 'IFRS – Solvency II revaluation items':

- Tax on the revaluation of Loans and mortgages (€ 11 million)
- Tax on the revaluation of the Technical provisions (-/- € 2 million)

The weighted average applicable statutory tax rate for Aegon Leven in 2020 was 25% and remain 25% in 2021, reflecting the reversal of the previously planned tax rate lowering per 2021 (as was announced on "Prinsjesdag").

D.3.1.2. Derivatives

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

The Solvency II balance sheet contains a derivatives position of € 51 million. The IFRS balance sheet contains a derivatives position of € 48 million. The Solvency II balance sheet is € 2 million higher due to the reclassification of accrued interest from Any other liabilities.

D.3.1.3. 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 € 4 million is almost the same as the IFRS position for insurance and intermediaries payables.

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 is € 17 million and is almost equal to the amount on the IFRS balance sheet (difference of € 78k).

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 liabilities, 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

All 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 Schadeverzekering 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 assessment. The projections consider regular, mildly adverse as well as extreme scenarios, in order to ascertain that Aegon Schadeverzekering is able to fulfil its obligations to policyholders in these scenarios.

Key figures

Eligible own funds of Aegon Schadeverzekering equaled 176% of the SCR at year end 2020 (2019: 163%). This ratio being greater than 100% evidences 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 Schadeverzekering is set by the company's Executive Board at 145%. The slight increase of the Solvency II ratio of Aegon Schadeverzekering is a combination of an increase in both Own Funds and SCR. The SCR increase was driven by model and assumption updates.

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 Schadeverzekering only includes Unrestricted Tier 1 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

The component of the own funds of Aegon Schadeverzekering is described below:

Element of Own funds	*Description*
Tier 1 capital: consists of ordinary shares, share premium and reconciliation reserves, 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 ordinary share capital and share premium amount to € 173 million. The Reconciliation Reserves are 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 in the table below the Reconciliation Reserves amount to € 236 million 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.

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 SCR and MCR of Aegon Schadeverzekering amount to € 409 million. This is shown in the table below:

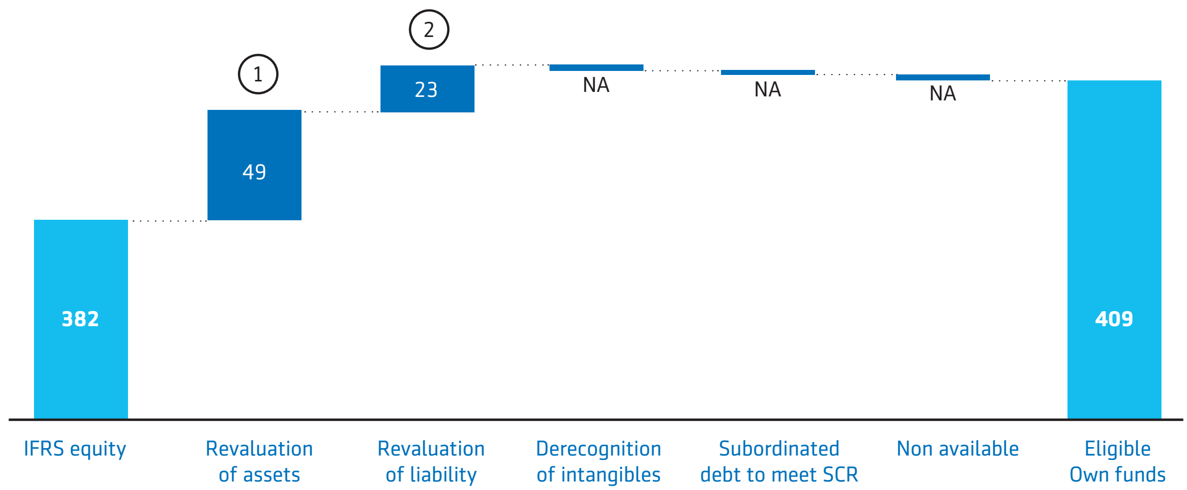
Eligible Own funds to meet SCR and MCR

	Total Tier	U-Tier 1	Tier 2	Tier 3
Ordinary share capital- gross of own share	31	31		
Share premium account related to ordinary share capital	142	142		
Reconciliation reserve	236	236		
Subordinated liabilities				
Deferred tax assets				
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				
Eligible own funds to meet SCR	**409**	**409**		

There is no capital loss or capital overflow after applying capital restrictions as all capital is unrestricted Tier 1 for both MCR and SCR coverage.

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 € 49 million mainly reflects mortgage loans held for general account which are valued at amortized cost under IFRS, and at market value under Solvency II.
2. Revaluation of liabilities in the amount of € 23 million and relates to prudent assumptions used under IFRS and at market value under Solvency II.

A more extensive analysis on the Solvency II to IFRS reconciliation is given in Chapter D.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Solvency Capital Requirement

Aegon Schadeverzekering reports its Solvency Capital Requirement in line with the Standard Formula specifications.

Composition of the SCR at year end 2020

The graph below provides an overview of the SCR by risk categories. Each risk category is split into risk types. The amounts as provided in the table are the sum of the risk types within the risk category, they therefore do not include diversification within the risk category. The line with diversification contains diversification amounts within risk categories as well as diversification amounts between the risk categories.

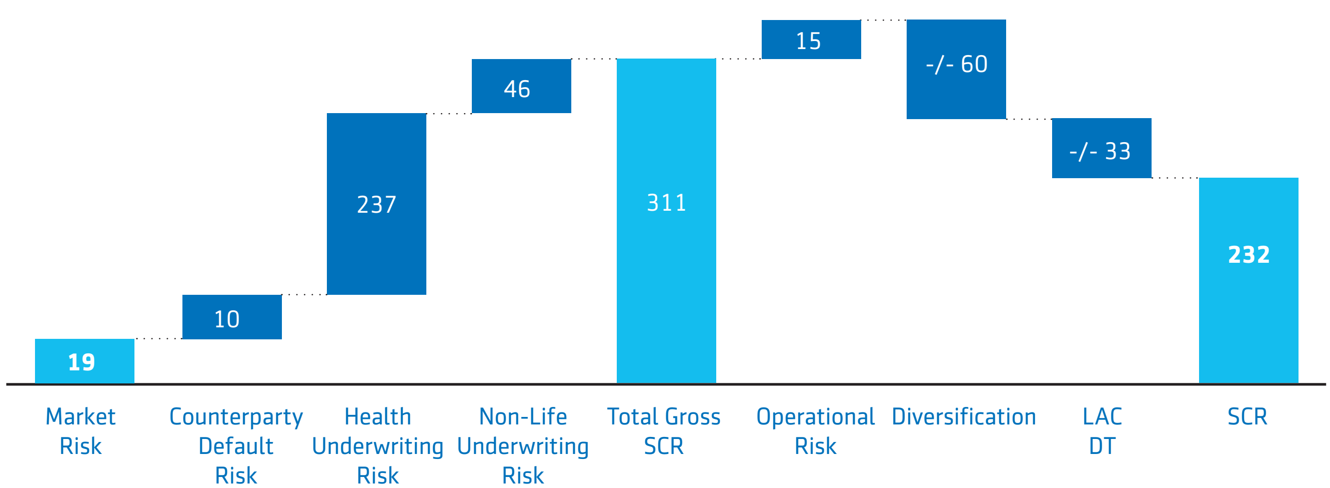
No simplified calculations or undertaking specific parameters have been used for the SCR components. Refer to chapter C on risk Profile for a further discussion on the SCR amounts by Risk Type.

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.

The additional DNB guidance did not impact the factor of LAC DT for Aegon Schadeverzekering. However, Aegon already lowered the factor of LAC DT from 75% at year-end 2019 to 50% at year-end 2020 to account for economic uncertainty (low interest rates, drags) and lower new business expectations. 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 € 101 million.

Component MCR 2020	**MCR**
Total non-life MCR	35
Total life MCR	66
Total MCR	**101**
MCR floor	58
MCR combined	**101**

E.2.3. Material changes to the Solvency Capital Requirements and Minimum Capital requirement
The SCR decrease was driven by the introduction of AOV reinsurance.

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

Aegon Schadeverzekering 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

Aegon Schadeverzekering does not use a (Partial) Internal Model to calculate its Solvency Capital Requirement.

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 Schadeverzekering 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 Schadeverzekering'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 and periodic management reporting. Decisions to return capital to shareholders are based on solvency assessments that consider the impact of the decisions on the current and projected solvency positions.

Any solvency position is subject to risks, and Aegon Schadeverzekering 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. GS-II designation
On November 3, 2015, Aegon was designated by the Financial Stability Board (FSB) as a Global 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), consistently implemented, 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 implementation of the Holistic Framework, review the need to either discontinue or re-establish an annual identification of G-SIIs. Consequently, Aegon continues to be designated at the time of publication of this Solvency and Financial Condition Report. 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 and collective discussion on the outcomes and appropriate 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 activity and size of IAIGs. ComFrame builds on the Insurance Core Principles that are applicable to the supervision of all insurers. If the FSB would, as referred to above, 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).