

AEGON NV
Form 6-K
August 31, 2017
Table of Contents

Securities and Exchange Commission

Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d/16

of the Securities Exchange Act of 1934

August 2017

AEGON N.V.

Aegonplein 50

2591 TV THE HAGUE

The Netherlands

Table of Contents

Aegon's 2016 Solvency and Financial Condition Report based on IFRS as issued by the IASB, dated June 30, 2017, are included as appendix and incorporated herein by reference. This Solvency and Financial Condition Report is based on Aegon's 2016 Solvency and Financial Condition Report dated June 30, 2017 and has been adjusted to reverse the EU carve out version of IAS 39 and comply with IFRS as issued by the IASB.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AEGON N.V.
(Registrant)

Date: August 31, 2017

By /s/ J.H.P.M. van Rossum
J.H.P.M. van Rossum
Head of Corporate Financial Center

Table of Contents

Table of Contents**Table of contents****Introduction**

<u>Scope of the report</u>	2
<u>Summary</u>	3

A. Business and performance

<u>A.1 Business</u>	7
<u>A.2 Underwriting performance</u>	17
<u>A.3 Investment performance</u>	18
<u>A.4 Performance of other activities</u>	22

B. System of governance

<u>B.1 General information on the system of governance</u>	24
<u>B.2 Fit and proper requirements</u>	30
<u>B.3 Risk management system including the Own Risk and Solvency Assessment</u>	33
<u>B.4 Internal control system</u>	39
<u>B.5 Internal Audit function</u>	43
<u>B.6 Actuarial function</u>	43
<u>B.7 Outsourcing</u>	44
<u>B.8 Any other information</u>	45

C. Risk profile

<u>General</u>	46
<u>Prudent person principle</u>	47
<u>Off-balance positions and special purpose vehicles</u>	48
<u>C.1 Underwriting risk</u>	49
<u>C.2 Market risk</u>	52
<u>C.3 Credit risk</u>	55
<u>C.4 Liquidity risk</u>	58
<u>C.5 Operational risk</u>	60
<u>C.6 Other material risks</u>	62
<u>C.7 Any other information</u>	63

D. Valuation for solvency purposes

<u>Solvency II valuation principles</u>	64
<u>Approach balance sheet reconciliation</u>	66
<u>D.1 Assets</u>	69
<u>D.2 Technical provisions</u>	74
<u>D.3 Other liabilities</u>	80
<u>D.4 Alternative methods for valuation</u>	85

E. Capital management

<u>Maintaining adequate solvency capital</u>	89
<u>Capital quality</u>	91
<u>Use of leverage</u>	92
<u>G-SII designation</u>	92
<u>E.1 Own funds</u>	93
<u>E.2 Solvency Capital Requirement and Minimum Capital Requirement</u>	99
<u>E.3 Use of the duration-based equity risk sum-module</u>	103
<u>E.4 Differences between standard formula and partial internal model used</u>	103
<u>E.5 Non-compliance with capital requirements</u>	104
<u>Additional information</u>	
<u>Glossary</u>	105
<u>Cautionary notes</u>	109
<u>Contact</u>	110

Presentation of certain information

This document reflects Aegon's 2016 Solvency and Financial Condition Report in which references to International Financial Reporting Standards are based on IFRS as issued by the IASB (IFRS). This document is filed with the United States Securities and Exchange Commission (SEC). Other than for SEC reporting, Aegon prepares its Solvency and Financial Condition Report based on International Financial Reporting Standards as adopted by the European Union, including the decisions Aegon made with regard to the options available under International Financial Reporting Standards as adopted by the European Union (IFRS-EU). This report is prepared by reversing the hedge accounting impacts that are applied under the EU carve out version of IAS 39. For a quantitative disclosure of the impact refer to Chapter D Valuation for solvency purposes, section Approach balance sheet reconciliation .

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

2 Introduction Scope of the report

Scope of the report

This report is Aegon N.V.'s Group Solvency and Financial Condition Report (SFCR) for the year ending December 31, 2016. This report informs Aegon N.V.'s stakeholders about Aegon N.V.'s:

Business and performance;

System of governance;

Risk profile;

Valuation for solvency purposes; and

Capital management.

The material differences between the scope of Aegon Group used for the consolidated financial statements based on IFRS and the scope of Aegon Group for the consolidated data determined in accordance with Article 335 of the Delegated Regulation Solvency II, are discussed in more detail 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 article 256 of the Solvency II Directive, articles 359–371 and 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).

Aegon N.V. is referred to in this document as Aegon, or the Company, and is together with its member companies referred to as Aegon Group or the Group. For such purposes member companies means, in relation to Aegon, those companies required to be consolidated in accordance with Solvency II requirements.

The figures reflecting monetary amounts in the SFCR are presented in euro (unless stated otherwise). Aegon 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 issued by the IASB (IFRS).

Under Solvency II, Aegon uses a combination of method 1 (Accounting Consolidation) and method 2 (Deduction & Aggregation) for the calculation of the Solvency II group solvency. The Solvency II consolidated data (the data included in accordance with method 1) does not include the entities that are included in the group solvency calculation in accordance with method 2 (for entities in the US, Bermuda, Mexico, Brazil, China, India and Turkey). The most notable difference in this respect for Aegon are the US insurance and reinsurance entities. Furthermore, joint ventures are partially consolidated under Solvency II, whereas joint ventures are not consolidated under IFRS. As part of method 1 under Solvency II, other financial sector (OFS) entities are included as related undertakings based on local sectorial rules, whereas, when OFS are controlled entities, such are consolidated under IFRS.

The consolidation under Solvency II is set out in more detail in chapter D. Valuation for solvency purposes and E. Capital management of the SFCR.

The 2016 SFCR of Aegon Group has been prepared and disclosed under the responsibility of the Executive Board.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

3 Introduction Summary

Summary

The 2016 Solvency Financial Condition Report provides Aegon's stakeholders insight in:

A. Business and performance

In 2016, Aegon made further progress in transforming the Company in delivering on its strategy, despite a challenging macro-economic environment. The Solvency II ratio remained well within the target range of 140 to 170 percent throughout the year. The ratio on December 31, 2016 of 157 percent was above the midpoint of Aegon's target range. While Aegon experienced some significant headwinds during 2016 in the form of market volatility and some adverse claim experience the reported underlying earnings before tax amounted to EUR 1,913 million.

During 2016, the Aegon UK business has gone through a significant transformation in which the Company sold its annuity portfolio and acquired two new businesses.

This sale to Rothesay and Legal & General consisted of two separate transactions where Aegon initially reinsured GBP 9 billion of liabilities. This will be followed by Part VII transfers which conclude the sale.

Aegon announced the acquisition of BlackRock's UK Defined Contribution (DC) pension and administration platform business in May 2016. This transaction is subject to court approval. In August 2016, Aegon announced the acquisition of Cofunds from Legal & General. This transaction completed the strategic transformation of Aegon's operations in the United Kingdom from traditional life insurance to platform business, and firmly establishes the company as the number one provider in the retail platform market. The acquisition was successfully closed on January 1, 2017 following regulatory approval, adding 750,000 platform customers representing over GBP 80 billion assets under administration. As a result of this transaction, Aegon will serve over 3 million customers in the United Kingdom.

Aegon's underlying earnings before tax increased compared with 2015 to EUR 1,913 million in 2016. This was mainly driven by lower amortization of deferred policy acquisition costs related to upgrading customers to the retirement platform in the United Kingdom compared to 2015. The net income amounted to EUR 438 million in 2016 driven by underlying earnings before tax, and was impacted by the book loss on the divestment of the UK annuity portfolio and fair value losses, partly offset by gains on investments.

Commissions and expenses decreased in 2016 compared with 2015 to EUR 6.4 billion, mainly driven by lower amortization of deferred policy acquisition costs in the United Kingdom. Operating expenses increased by 1% in 2016 compared with 2015 to EUR 3.6 billion.

Policyholder claims and benefits amounted to EUR 42.0 billion in 2016, which is comprised of EUR 23.9 billion claims and benefits paid for Aegon's life business and EUR 2.1 billion of claims and benefits paid for non-life business. In addition, policyholder claims and benefits were significantly impacted by market movements (equity markets and interest rates) and reflect changes in technical provisions resulting from fair value changes on for account of policyholder financial assets included in results from financial transactions of EUR 15.1 billion.

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

B. System of governance

General governance

Aegon is incorporated and established in the Netherlands and therefore must comply with Dutch law and is subject to the Dutch Corporate Governance Code.

Aegon's Executive Board is charged with the overall management of the Company and is therefore responsible for achieving Aegon's aims and developing the strategy and its associated risk profile, in addition to overseeing any relevant sustainability issues and the development of the Aegon's earnings, Aegon's Executive Board is assisted in its work by the Management Board. Aegon's Management Board is comprised of the Executive Board, the Group CRO and CEOs of the Americas, the Netherlands, United Kingdom and CEE. During 2016, the Management Board was expanded by the CEO of Asset management, General Counsel, Global Head of HR and the

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

4 Introduction **Summary**

Chief Technology Officer. Aegon's CFO Darryl Button was a member of the Management Board until he concluded his tenure with Aegon on December 1, 2016¹.

Aegon's Supervisory Board oversees the management of the Executive Board, in addition to the Company's business and corporate strategy. The Supervisory Board members, eight members as per December 31, 2016, are appointed by the General Meeting of Shareholders and Aegon aims to the Supervisory Board to be well-balanced in terms of professional background, geography and gender. The following committees exist, exclusively comprised of Supervisory Board members, in dealing with specific issues related to Aegon's financial accounts, risk management, executive remuneration and appointments:

Audit Committee;

Risk Committee;

Remuneration Committee; and

Nomination and Governance Committee.

Risk management

Aegon's risk management framework is designed and applied to identify and manage potential events and risks that may affect Aegon. This is established in the Enterprise Risk Management (ERM) framework; which aims to identify and manage individual and aggregate risks within Aegon's risk tolerance in order to provide reasonable assurance regarding the achievement of Aegon's objectives. The ERM framework applies to all material businesses of Aegon for which it has operational control. Aegon's businesses are required to either adopt the Group level ERM framework directly, or tailor it to local needs, while meeting the requirements of the Group level ERM framework. Aegon's ERM framework is based on a well-defined risk governance structure:

Supervisory Board;

Executive and Management Boards;

Group Risk & Capital Committee and its sub-committees; and

Regional Risk & Capital Committees.

In 2016, the Group Risk & Capital Committee (GRCC) structure was restructured with the aim to further integrate governance for risk, actuarial and finance matters. The scope of the GRCC has been extended and representation of the Risk function was strengthened. The scope includes both financial and non-financial (operational) risks.

Control environment

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

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

C. Risk profile

As an insurance group, Aegon accepts and manages risk for the benefit of its customers and other stakeholders. Aegon's risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way that is aligned with the Company's strategy. The targeted risk profile is determined by customer needs, Aegon's competence to manage the risk, the preference of Aegon for the risk, and whether there is sufficient capacity to take the risk. Aegon currently targets an equal balance between financial market and credit risks and underwriting risks. The targeted risk profile is set at Aegon Group level and developed in more detail within the subsidiaries where insurance business is written. Aegon's risk strategy provides direction for the targeted Aegon risk profile while supporting Aegon's business strategy. The Company is exposed to a range of underwriting, market, credit, liquidity and operational risks.

1 On September 6, 2016, Aegon announced Mr. Button's decision to step down as CFO and to leave the Company on December 1, 2016.

Aegon's Supervisory Board appointed Matthew J. Rider (1963, US Citizen) as CFO and member of the Executive Board at its Annual General Meeting of Shareholders on May 19, 2017.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

5 Introduction Summary

The sale of the majority of the UK annuity business in 2016 reduced the exposure to longevity risk, interest rate risk arising from this business. As a result of the transaction, which is expected to be completed during 2017, Aegon entered into reinsurance contracts with Rothesay Life and Legal & General. These temporary reinsurance contracts resulted in an additional counterparty risk exposure up until completion.

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

D. Valuation for solvency purposes

Aegon 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 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 basis) can be summarized as follows:

Revaluation differences on mainly insurance liabilities and other assets which are valued other than fair value in the IFRS balance sheet;

Differences in scope, where Aegon's Non-EEA (re)insurance entities are aggregated based on the Deduction & Aggregation method and the net asset values is represented in the line Participation on Aegon's Solvency II economic balance sheet; and

De-recognition of items on the Solvency II economic balance sheet which are admissible on the IFRS balance sheet, for instance Deferred policy acquisition costs, Goodwill and Intangible assets.

Aegon applies the matching adjustment, in Aegon UK and Aegon Spain, which has a positive impact to the Group own funds of EUR 107 million as of December 31, 2016 and an impact of EUR (105) million on the Group solvency capital requirement. The matching adjustment methodology has been approved by local regulators. In addition, Aegon applies the volatility adjustment, in Aegon the Netherlands, Aegon UK and Aegon Spain, which has a positive impact to the Group own funds of EUR 651 million and an impact of EUR (1,636) million on the Group solvency capital requirement.

The combined positive impact of the matching adjustment and volatility adjustment on the Group Solvency II ratio is 26%.

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

E. Capital management

Aegon maintains a target capital ratio between 140% - 170%. At December 31, 2016, the Solvency II ratio of 157% was above the midpoint of this target range.

In the following table the Solvency II key figures for Aegon are presented as at December 31, 2016:

Total eligible own funds

Amounts in EUR millions

Tier 1 unrestricted own funds	10,656
Tier 1 restricted own funds	2,517
Tier 2 own funds	3,309
Tier 3 own funds	1,638

Total eligible own funds	18,119
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Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents6 Introduction **Summary****Group SCR/Solvency II ratio**

Amounts in EUR millions

Investment & counterparty risk	2,730
Mismatch risk	81
Underwriting risk	1,127
Standard formula	2,892
Other capital requirement	6,036
LAC-DT and other	(1,302)

Group PIM SCR	11,563
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Group Solvency II ratio	157%
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Aegon uses a combination of Accounting Consolidation (method 1) and Deduction & Aggregation (method 2) for the calculation of the Solvency II group solvency. In addition, Aegon uses a Partial Internal Model (PIM) to calculate the solvency position of its EU-domiciled (re)insurance activities under Accounting Consolidation. In the table above, Aegon's PIM is reflected in Investment & counterparty risk, Mismatch risk and Underwriting risk.

In Aegon's Non-EEA regions, (re)insurance entities domiciled in third countries deemed (provisional) equivalent (US, Bermuda, Japan, Mexico and Brazil) the capital requirement is based on local capital requirements. For other Non-EEA (re)insurance entities domiciled in China, India and Turkey, the capital requirement is based on Solvency II. In the table above, Aegon's Non-EEA regions, is reflected as Other capital requirement.

Aegon's internal model was approved by the College of Supervisors as part of the Internal Model Application Process. Aegon believes a (partial) internal model is a better representation of the actual risk since this contains Company specific modelling and sensitivities as opposed to industry-wide approximations included in the standard formula methodology.

It is noted that Aegon's Solvency II capital is subject to final interpretations of Solvency II regulations including the assumptions underlying Aegon's factor for the loss absorbing capacity of deferred taxes in the Netherlands. New guidance from the Dutch Central Bank issued in February 2017 is under review. At December 31, 2016, the worst case tax factor of LAC-DT is assumed 75% for Aegon the Netherlands. In addition, the Group own funds do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon in the Netherlands in the past as the potential liability cannot be reliably quantified at this point.

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

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

7 Business and performance **Business**

A. Business and performance

A.1 Business

A.1.1 Overview

Aegon N.V. is a public limited liability company with its corporate seat and head office in The Hague, the Netherlands. Aegon's common shares are listed on stock exchanges in Amsterdam (Euronext) and New York (NYSE).

A.1.2 Regulators and auditor

The supervisory authority responsible for Solvency II group supervision on the Aegon Group and for supplementary group supervision in accordance with the EU Financial Conglomerates Directive (FCD) is:

De Nederlandsche Bank (DNB), the Dutch Central Bank

Address: Westeinde 1, 1017 ZN, Amsterdam

Telephone: +31(0)20 524 91 11

Aegon's external auditor is PricewaterhouseCoopers Accountants N.V. The external auditor's mandate does not cover an audit on the information disclosed in this SFCD. Their contact details are:

PricewaterhouseCoopers Accountants N.V.

Address: Thomas R. Malthusstraat 5, 1066 JR, Amsterdam

Telephone: +31 (0)88 792 00 20

A.1.3 Holders of qualifying holdings

A qualifying holding means a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking. Only Vereniging Aegon qualifies based on this definition.

Vereniging Aegon, a Dutch association located in The Hague, the Netherlands, with a special purpose to protect the broader interests of Aegon N.V. and its stakeholders. On December 31, 2016, Vereniging Aegon, Aegon's largest shareholder, held a total of 279,236,609 common shares and 567,697,200 common shares B. 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%. 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. As Special Cause qualifies the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons, whether

individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging Aegon determines that a Special Cause has occurred, Vereniging Aegon will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of one vote per common share B for a limited period of six months. Accordingly, at December 31, 2016, the voting power of Vereniging Aegon under normal circumstances amounted to approximately 14.4%, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by Aegon N.V.). In the event of a Special Cause, Vereniging Aegon's voting rights will increase, currently to 32.6%, for up to six months.

A.1.4 Aegon's Group structure

Aegon's main operating units are separate legal entities and operate under the laws of their respective countries. The shares of these legal entities are directly or indirectly held by three intermediate holding companies incorporated under Dutch law: Aegon Europe Holding B.V., the holding company for all European activities; Aegon International B.V., which serves as a holding company for the Aegon Group companies of all non-European countries; and Aegon Asset Management Holding B.V., the holding company for a number of its asset management entities.

Aegon has the following operating segments: the Americas, which includes the United States, Mexico and Brazil; the Netherlands; the United Kingdom; Central & Eastern Europe; Spain & Portugal; Asia and Aegon Asset Management. The separate operating segments of the Netherlands, the United Kingdom, Central & Eastern Europe and Spain & Portugal may be referred together as Europe, but Europe is not an operating segment.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

8 Business and performance **Business**

A.1.5 List of material related undertakings

The principal undertakings of the parent company Aegon N.V. are listed by geographical segment. All are wholly owned, directly or indirectly, unless stated otherwise, and are involved in insurance or reinsurance business, asset management or services related to these activities. The voting power in these undertakings held by Aegon is equal to the shareholdings.

Americas

Transamerica Advisors Life Insurance Company (Little Rock, Arkansas);

Transamerica Casualty Insurance Company (Columbus, Ohio).

Transamerica Corporation (Wilmington, Delaware);

Transamerica Financial Life Insurance Company (Albany, New York);

Transamerica Life Insurance Company (Cedar Rapids, Iowa);

Transamerica Premier Life Insurance Company (Cedar Rapids, Iowa);

Akaan-Aegon S.A.P.I. de C.V. (Mexico City, Mexico) (99.99%); and

Mongeral Aegon, Seguros e Previdencia S.A. (Rio de Janeiro, Brazil) (50%).

Europe

The Netherlands

Aegon Bank N.V. (The Hague);

Aegon Hypotheken B.V. (The Hague);

Aegon Levensverzekering N.V. (The Hague);

Aegon PPI B.V. (The Hague);

Aegon Schadeverzekering N.V. (The Hague);

Aegon Spaarkas N.V. (The Hague);

Cappital Premiepensioeninstelling B.V. (Groningen).

Optas Pensioenen N.V. (Rotterdam);

TKP Pensioen B.V. (Groningen);

Unirobe Meeùs Groep B.V. (The Hague);

AMVEST Vastgoed B.V. (Utrecht) (50%), property management and development; and

N.V. Levensverzekering-Maatschappij De Hoop (The Hague) (33.3%).
United Kingdom

Aegon Investment Solutions Ltd (Edinburgh, Scotland).

Scottish Equitable PLC (Edinburgh, Scotland);

Stonebridge International Insurance Ltd (London, United Kingdom); and

Tenet Group Limited (Leeds, United Kingdom) (22%).
Central & Eastern Europe

Aegon Czech Life (Aegon Pojištovna, a.s) (Prague, Czech Republic);

Aegon Hungary Composite Insurance Co. (Aegon Magyarország Általános Biztosító Zártkörűen Működő Részvénytársaság) (Budapest, Hungary);

Aegon Poland Life (Aegon Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna) (Warsaw, Poland);

Aegon Poland Pension Fund Management Co. (Aegon Powszechnie Towarzystwo Emerytalne Spółka Akcyjna) (Warsaw, Poland);

Aegon Romania Pension Administrator Co. (Aegon Pensii Societate de Administrare a Fondurilor de Pensii Private S.A) (Cluj, Romania);

Aegon Slovakia Life (Aegon životná poisťovňa, a.s.) (Bratislava, Slovakia);

Aegon Slovakia Pension Management Co. (Aegon, d.s.s., a.s) (Bratislava, Slovakia); and

Aegon Turkey (Aegon Emeklilik ve Hayat A.Ş.) (Istanbul, Turkey);
Spain & Portugal

Aegon Activos A.V., S.A. (Madrid, Spain);

Aegon Administracion y Servicios A.I.E. (Madrid, Spain);

Aegon España S.A.U. de Seguros y Reaseguros (Madrid, Spain);

Aegon Santander Generales Seguros y Reaseguros S.A. (Madrid, Spain) (51%);

Aegon Santander Portugal Não Vida-Companhia de Seguros S.A. (Lisbon, Portugal) (51%);

Aegon Santander Portugal Vida-Companhia de Seguros de Vida S.A. (Lisbon, Portugal) (51%);

Aegon Santander Vida Seguros y Reaseguros S.A. (Madrid, Spain) (51%); and

Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A. (Oviedo, Spain) (50%).

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents9 Business and performance **Business****Asia**

Transamerica Life (Bermuda) Ltd. (TLB) (Hamilton, Bermuda);

Aegon Life Insurance Company (Mumbai, India) (49%);

Aegon Sony Life Insurance Co. Ltd. (Tokyo, Japan) (50%);

Aegon THTF Life Insurance Co. Ltd. (Shanghai, China) (50%); and

SA Reinsurance Ltd. (Hamilton, Bermuda) (50%).

Asset Management

Aegon Asset Management Holding B.V. (The Hague);

Kames Capital Holdings Ltd (Edinburgh, Scotland);

TKP Investments B.V. (Groningen);

Aegon Industrial Fund Management Company (AIFMC) (Shanghai, China) (49%); and

La Banque Postale Asset Management (Paris, France) (25%).

For a complete list of related undertakings, please refer to QRT S.32.01.22 - Undertakings in scope of the group. A list of Aegon's branches is provided below:

Aegon's branches	Ownership	Registered Office town/city	Registered Office country
Company name			
AEGON Asia B.V. - Hong Kong Branch	100%	Island East	Hong Kong
AEGON CEE B.V., Hungarian Branch Office	100%	Budapest	Hungary

Aegon Direct Marketing Services - German Branch (being closed)	100%	Frankfurt am Main	Germany
Aegon Direct Marketing Services - Spanish Branch (being closed)	100%	Madrid	Spain
Aegon Insights Limited - Singapore Branch	100%	Singapore	Singapore
AEGON Ireland plc. - German Branch	99.99%	Frankfurt am Main	Germany
AEGON Magyarország Általános Biztosító Zártkörűen Csehországi Fióktelepe - Czech Branch	100%	Prague	Czech Republic
AEGON Magyarország Általános Biztosító Zártkörűen Szlovákiai Fióktelepe - Slovakian Branch	100%	Bratislava	Slovakia
AEGON Ubezpieczenia Majątkowe Oddział w Polsce Zakładu AEGON Magyarország Általános Biztosító Spółka Akcyjna w Budapeszcie - Polish Branch	100%	Chorzów	Poland
AEGON UK Corporate Services Limited - Irish Branch	100%	Dublin	Ireland
S.C. AEGON Towarzystwo Ubezpieczeń na Życie S.A. Varsovia-Sucursala Floresti - Romanian Branch	100%	Floresti	Romania
Transamerica Life (Bermuda) Ltd. - Hong Kong Branch	100%	Island East	Hong Kong
Transamerica Life (Bermuda) Ltd. - Singapore Branch	100%	Singapore	Singapore

A.1.6 Material lines of business and material geographical areas

Following below, per geographical area, a high level overview of the countries and their material lines of business is provided.

Americas

Life

Products offering protection against mortality, morbidity and longevity risks, including traditional and universal life, in addition to endowment, term, and whole life insurance products.

Accident & health

Products offering supplemental health, accidental death and dismemberment insurance, critical illness, cancer treatment, credit/disability, income protection, travel and long-term care insurance.

Mutual funds

Wide range of specialized mutual funds, including asset allocation, US equity, global/international equity, alternative investments, hybrid allocation, fixed income and target date funds.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

10 Business and performance **Business**

Retirement plans

Comprehensive and customized retirement plan services to employers across the entire spectrum of defined benefit, defined contribution and non-qualified deferred compensation plans. Includes services to individuals rolling over funds from other qualified retirement funds or Individual Retirement Accounts (IRAs).

Variable annuities

Variable annuities allow the holder to accumulate assets for retirement on a tax-deferred basis and to participate in equity or bond market performance, in addition to receiving one of many payout options designed to provide income in retirement.

Fixed annuities

Fixed annuities allow customers to make a lump-sum payment or a series of payments and receive income in the form of periodic payments that can begin immediately or after a period of time.

Stable value solutions

Synthetic Guaranteed Investment Contracts (GICs) in the United States offered primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans.

Brazil

Life and critical illness insurance; private and company pensions; pension scheme administration; and investment funds.

Mexico

Individual life, group life, and health insurance; and saving plans.

Europe

The Netherlands

Life

Products with mortality, morbidity, and longevity risks, including traditional and universal life, in addition to employer, endowment, term, whole life insurance products; mortgages; annuity products; and banking products, including saving deposits.

Pensions

Individual and group pensions usually sponsored by, or obtained via, an employer. Administration-only services are offered to company and industry pension funds.

Non-life

General insurance, consisting mainly of automotive, liability, disability, household insurance, and fire protection.

Distribution

Independent distribution channel, offering both life and non-life insurance solutions.

United Kingdom

Life

Individual protection products, such as term insurance, critical illness, income protection and international/offshore bonds.

Pension

Individual pensions, including self-invested personal pensions and drawdown products, such as guaranteed income drawdown products; group pensions, sponsored by, or obtained via, an employer. Also includes the tied-agent distribution business.

Central & Eastern Europe

Activities in the Czech Republic, Hungary, Poland, Romania, Slovakia, and Turkey. Includes life insurance, individual and group pension products, savings and investments, in addition to general insurance.

Spain & Portugal

Distribution partnerships with Santander in Spain & Portugal and with Liberbank in Spain. Includes life insurance, accident and health insurance, general insurance and investment products.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

11 Business and performance **Business**

Asia

High net worth businesses

Life insurance marketed to high-net-worth individuals in Hong Kong and Singapore.

Aegon Insights

Full range of direct insurance solutions from product design, customer analytics insights, marketing campaign design and multi-channel product distribution to policy administration and claims management.

Strategic partnerships

Joint ventures in China and India offering (term) life insurance and savings products, and in Japan offering variable annuities.

Aegon Asset Management

Americas

Investment products covering third-party customers, insurance-linked solutions, and Aegon's own insurance companies.

The Netherlands

Investment products covering third-party customers, insurance-linked solutions, and Aegon's own insurance companies in addition to manager selection and tailored advice on balance sheet solutions for the pension market.

United Kingdom

Fixed income, equities, real estate and multi-asset solutions to Aegon's own insurance companies as well as external UK and international customers.

Rest of the world

Asset management activities in Central & Eastern Europe and Spain & Portugal and distribution in Asia.

Strategic partnerships

China

Aegon Asset Management owns 49% of the shares of Aegon Industrial Fund Management Company, a Shanghai-based asset manager.

France

Aegon Asset Management has a strategic asset management partnership with La Banque Postale through its 25% equity stake in La Banque Postale Asset Management.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents12 Business and performance **Business****A.1.7 Results of operations****Results 2016 (IFRS)****Underlying earnings geographically**

Amounts in EUR millions	2016	2015	%
Net underlying earnings	1,483	1,481	
Tax on underlying earnings	429	386	11%
Underlying earnings before tax geographically			
Americas	1,249	1,278	(2%)
The Netherlands	534	537	(1%)
United Kingdom	59	(27)	
Central & Eastern Europe	55	37	51%
Spain & Portugal	8	12	(38%)
<i>Europe</i>	655	559	17%
Asia	21	20	3%
Asset Management	149	170	(12%)
Holding and other activities	(162)	(161)	
Underlying earnings before tax	1,913	1,867	2%
Fair value items	(840)	(651)	(29%)
Gains / (losses) on investments	340	346	(2%)
Net impairments	(54)	49	
Other income / (charges)	(771)	(2,180)	65%
Run-off businesses	54	88	(39%)
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	641	(482)	
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	31	33	(6%)
Income tax	(203)	51	
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(31)	(33)	6%
Net income	438	(431)	
Commissions and expenses	6,696	6,916	(3%)
of which operating expenses	3,764	3,734	1%

New life sales

Amounts in EUR millions	2016	2015	%
Americas	542	599	(9%)
The Netherlands	111	130	(15%)
United Kingdom	66	72	(8%)
Central & Eastern Europe	83	91	(9%)
Spain & Portugal	39	39	1%
<i>Europe</i>	299	332	(10%)
Asia	128	173	(26%)
Total recurring plus 1/10 single	969	1,104	(12%)

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Amounts in EUR millions

Life	779	774	1%
Individual Savings & Retirement	534	604	(12%)
Pensions	555	440	26%
Non-life	34	17	99%
Asset management	149	170	(12%)
Other	(139)	(139)	
Underlying earnings before tax	1,913	1,867	2%

Net income

The net income amounted to EUR 438 million in 2016 driven by underlying earnings before tax of EUR 1,913 million, and was impacted by the book loss on the divestment of the UK annuity portfolio and fair value losses, partly offset by gains on investments.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

14 Business and performance **Business**

Underlying earnings before tax

Aegon's underlying earnings before tax increased compared with 2015 to EUR 1,913 million in 2016. This was mainly driven by lower amortization of deferred policy acquisition costs (DPAC) in the United Kingdom following the write down of DPAC in the fourth quarter of 2015.

Underlying earnings before tax from the Americas declined compared with 2015 to EUR 1,249 million in 2016. Expense reductions and an improvement in claims experience offset lower variable annuities underlying earnings before tax compared with 2015 and the impact on recurring underlying earnings before tax of the actuarial assumption changes and model updates implemented in the third quarter of 2015;

In Europe, underlying earnings before tax in 2016 increased by 17% compared with 2015 to EUR 655 million. This was mainly driven by lower amortization of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform compared to 2015;

In Asia, underlying earnings before tax increased in 2016 compared with 2015 to EUR 21 million as a result of increased underlying earnings before tax from the High Net Worth business. This was partly offset by lower underlying earnings before tax from Strategic Partnerships compared with 2015 mainly a result of the increase in ownership from 26% to 49% in India, which is currently loss-making;

Underlying earnings before tax from asset management decreased by 12% in 2016 compared with 2015 to EUR 149 million. This decline was mainly driven by lower underlying earnings before tax from Aegon's Chinese asset management joint venture AIFMC due to the normalization of performance fees; and

Total holding costs remained stable compared with 2015 at EUR 162 million in 2016.

Fair value items

The results from fair value items amounted to a loss of EUR 840 million in 2016, and were mainly driven by fair value losses in the United States. EUR 521 million fair value losses in the United States in 2016 were driven by the loss on hedging programs and the underperformance of alternative investments. Included in the loss on hedging programs in the United States is the loss on fair value hedges without accounting match in the Americas (EUR 322 million). This was mainly driven by the loss on equity hedges, which were set up to protect Aegon's capital position. Underperformance of fair value investments of EUR 226 million was primarily driven by investments related to hedge funds in the United States. Fair value losses of EUR 236 million in Europe in 2016 were driven by credit spreads movements, declining interest rates as a result of a mismatch on an IFRS basis between the valuation of interest rate hedges and liabilities, and declining interest rates as a result of the mismatch on an IFRS basis between certain interest rate hedges on the mortgage portfolio and the underlying mortgages. In addition, the loss on interest rate swaps was the main driver of the EUR 74 million fair value losses in 2016 at the holding.

Realized gains on investments

Realized gains on investments amounted to EUR 340 million in 2016 and were primarily related to a rebalancing of the investment portfolio in the United Kingdom and gains resulting from asset-liability management adjustments in the Netherlands.

Impairment charges

Net impairments of EUR (54) million in 2016 primarily related to investments in the energy industry in the United States.

Other charges

Other charges amounted to EUR 771 million in 2016. These were mostly caused by the book loss on the divestment of the annuity portfolio in the United Kingdom (EUR 682 million), and assumption changes and model updates (EUR (118) million).

Run-off businesses

The results of run-off businesses declined to EUR 54 million in 2016 mainly as a result of an adjustment to the intangible balances for BOLI/COLI business.

Income tax

Income tax amounted to EUR 203 million in 2016, and included one-time tax benefits in the United States and the United Kingdom. The effective tax rate on underlying earnings before tax and total income for 2016 was 22% and 32%, respectively.

Commissions and expenses

Commissions and expenses decreased by 3% in 2016 compared with 2015 to EUR 6.4 billion, mainly driven by lower amortization of deferred policy acquisition costs in the United Kingdom. Operating expenses increased by 1% in 2016 compared with 2015 to EUR 3.6 billion. Increased variable personnel expenses compared with 2015 and the acquisition of the defined contribution business from Mercer more than offset expense savings.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents**15 Business and performance Business****Production**

In 2016, compared with 2015, gross deposits were up 21% to EUR 100.3 billion, driven by higher gross deposits in asset management and Retirement Plans in the United States. Net deposits, excluding run-off businesses, declined to EUR 3.5 billion in 2016 compared with 2015, mostly due to lower gross deposits in variable annuities, anticipated contract discontinuances from the business acquired from Mercer, and low asset management net flows. The latter were mainly driven by market insecurity following the Brexit vote and a reduction in flows from money market funds in China. New life sales declined by 12% compared with 2015 to EUR 969 million in 2016, mostly driven by lower universal life and term life production in the United States, fewer pension buy-out sales in the Netherlands, and lower sales in Asia as a result of Aegon's strict pricing policy in a low rate environment. New premium production for accident & health and general insurance decreased by 9% compared with 2015 to EUR 954 million in 2016, mainly as a result of several product exits and a lower contribution from portfolio acquisitions.

A.1.8 Related party transactions

This section provides information about the material transactions during the reporting period with Aegon's shareholders, with persons who exercise a significant influence on Aegon and with members of the administrative, management or supervisory body. The second part of this section provides information on relevant operations and transactions within the Group.

Material transactions with shareholders

Referring to section A.1.3 Holders of qualifying holdings, Aegon largest and only material holder of qualifying holdings is Vereniging Aegon. All other qualifying holdings in Aegon are less than 10% and considered not material. The transactions with Vereniging Aegon during the financial year 2016 were:

On May 19, 2016, Aegon N.V. repurchased 13,450,835 Common Shares from Vereniging Aegon for the amount of EUR 58 million, being the Value Weighted Average Price of the common shares of the 5 trading days preceding this transaction, as part of the EUR 400 million Share Buy Back program, initiated by Aegon N.V. in January 2016 to neutralize the dilutive effect of the cancellation of Aegon N.V.'s preferred shares in 2013. Also the amount of EUR 58 million is 14.5% of EUR 400 million, which percentage is equal to the percentage of shares held by Vereniging Aegon in the total number of outstanding and voting shares Aegon N.V. at the time of this transaction; and

On June 6, 2016, Aegon N.V. repurchased 17,324,960 Common Shares B from Vereniging Aegon for the amount of EUR 1,968,332, being 1/40th of the Value Weighted Average Price of the common shares of the 5 trading days preceding this transaction. The repurchase of common shares B was executed to align the aggregate shareholding of Vereniging Aegon in Aegon N.V. with its special cause voting rights of 32.6%.

Material transactions with persons who exercise a significant influence on the undertaking

There are no material transactions with other persons who exercise a significant influence on the undertaking.

Remuneration of and transaction with Aegon's Boards

The transactions during 2016 that classify as being transactions with members of the Executive, Management and Supervisory Board consist of transactions related to the remuneration (fixed compensation / conditional variable compensation) of the members of the Executive and Management Board and the remuneration of active and retired members of the Supervisory Board.

Executive Board

Through 2016, the Executive Board consisted of Mr. Wynaendts and Mr. Button. Mr. Button stepped down as CFO and member of Aegon's Executive Board with effect from December 1, 2016. Amounts are disclosed for the period Mr. Button has been part of the Executive Board and are reflective of his time with Aegon till December 1, 2016. The total amount of remuneration, consisting of the fixed compensation, conditional variable compensation awards, other benefits and pension contributions, for Mr. Wynaendts related to 2016 was EUR 4,538 thousand and for Mr. Button EUR 2,793 thousand.

At the reporting date, Mr. Wynaendts had no loans with Aegon (mortgage loan 2015: EUR 249,158). In 2016, Mr. Wynaendts made a repayment on the mortgage loan totalling EUR 249,158. No other outstanding balances such as guarantees or advanced payments exist.

Management Board

On December 31, 2016, The Management Board, which assists the Executive Board in pursuing Aegon's strategic goals, is formed by members of the Executive Board, the CEOs of Aegon USA, Aegon the Netherlands, Aegon UK and Aegon Central & Eastern Europe, Aegon's Chief Risk Officer, CEO Asset Management, Chief Technology Officer, Global Head HR and the General Counsel. The total remuneration for the members of the Management Board over 2016 was EUR 18.6 million, consisting of EUR 7.0 million fixed compensation, EUR 6.4 million variable compensation awards, EUR 1.9 million other benefits and EUR 3.4 million pension benefits.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

16 Business and performance **Business**

Supervisory Board

The total remuneration in 2016 of active and retired members of the Supervisory Board amounted to EUR 935,875 excluding VAT. Aegon's Supervisory Board members are entitled to a base fee for membership of the Supervisory Board. No separate attendance fees are paid to members for attendance at the regular Supervisory Board meetings. For each extra Board meeting attended, be it in person or by video and/or telephone conference, an attendance fee of EUR 3,000 is paid. Not included in the total remuneration is a premium for state health insurance paid on behalf of Dutch Supervisory Board members. There are no outstanding balances such as loans, guarantees or advanced payments.

Relevant operations and transactions within the Group

Aegon facilitates intra-group transactions (IGTs) to support intra group efficiencies, including optimizing economies of scale, processes, liquidity and capital management. Due to the nature of these activities, there is interaction with business units and affiliates within the Group, resulting in a diverse set of IGTs. These include amongst other intercompany loans, derivatives, guarantees, internal reinsurance and capital distributions. Governance of Aegon's IGT Policy establishes definitions, governance, reporting and monitoring of IGTs ensuring a consistent standard of IGT usage across the Aegon Group for new and existing IGTs. All IGTs are further covered by the Aegon Global Transfer Pricing policy in order to ensure compliance with the internationally accepted at arm's length principle, which dictates that related entities transact with each other as if they are third parties.

Loans

Aegon utilizes intercompany loans for operational liquidity and capital purposes. Within the Group, the following material uncollateralized intra-group loans are granted:

Loans granted by Aegon N.V. to Transamerica Corporation, for an amount of EUR 3,666 million, to finance activities in the US;

Loans granted by Coöperatieve Aegon Financieringsmaatschappij U.A. (Coop) to Transamerica Corporation for an amount of EUR 662 million, to finance activities in the US;

A subordinated loan from Aegon Nederland N.V. to Aegon Levensverzekering N.V. for an amount of EUR 636 million to provide Aegon Levensverzekering N.V. with capital; and

A loan from Optas Pensioenen N.V. to Aegon Nederland N.V. for an amount of EUR 850 million.
Current account balances

Within the Group, the following material (uncollateralized) current account balances exist on December 31, 2016: A position from Aegon Nederland N.V. to Aegon Levensverzekering N.V.; a position from Aegon Leven Beleggingen

B.V. to Aegon Nederland N.V. and a position from Aegon Global Investment Fund B.V. to Aegon Nederland N.V. for an amount of EUR 2,985 million, EUR 2,474 million and EUR 2,692 million respectively.

Derivatives

Aegon Derivatives N.V., a 100% pass-through vehicle, centralizes and mitigates counterparty risk related to the use of OTC derivatives across the Aegon Group in one entity. Primarily European entities (except UK domiciled entities), make use of Aegon Derivatives N.V. In addition, foreign exchange derivatives are centrally managed within Aegon N.V. ensuring netting advantages. As of December 31, 2016, the net (credit) exposure on the abovementioned internal arrangements were very limited as most of these are supported by collateral arrangements.

Guarantees

Aegon N.V. and its subsidiaries provide guarantees for performance under contracts for certain aspects of the business transacted within the group. The agreements include, but are not limited to, letters of credit, (re)insurance contracts, maintenance of liquidity, capital and net worth. The performance of the various entities under the terms of the agreements are regularly assessed to ensure that the entity has sufficient resources on a best estimate basis to meet the obligations guaranteed under the agreement. As a result there is minimum exposure for these guarantees to the group.

Reinsurance

Subsidiaries of Aegon N.V. enter into reinsurance agreements in the normal course of business to (among other reasons), segregate or pool risks, manage volatility, and efficiently manage capital. Reinsurance exposures are evaluated based on the resources available within the assumptive entity and, in many cases, the reinsurance is supported by trusts, funds withheld, letters of credit and guarantees. Any exposure above these amounts are assessed based on Aegon N.V.'s IGT policy to ensure the exposure is within policy limits. There are currently no exposures greater than the policy levels set for affiliated reinsurance.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents17 Business and performance **Underwriting performance**

Capital distributions

Upstreaming of cash to a Holding Company is in general a capital distribution and can be in the form of a dividend. In addition, there may be situations in which an Aegon entity provided a loan to a Holding Company or when an Aegon entity repays (part of) a loan provided by a Holding Company. The decision whether or not to upstream cash to a Holding Company requires various considerations such as, but not limited to, ratings agency capital, regulatory capital, accounting and tax treatment.

A.2 Underwriting performance

Underwriting performance by line of business	2016				2015			
	Group	Life	Non-Life	Other ¹⁾	Group	Life	Non-Life	Other ¹⁾
in EUR millions								
Underwriting income	23,453	20,400	3,053		22,925	19,583	3,342	
Reinsurances paid to reinsurers	3,176	2,932	244		2,979	2,694	286	
Underwriter claims and benefits	41,974	39,620	2,354		26,443	23,847	2,596	
Commissions and expenses								
Commissions	2,929	2,495	662	(228)	3,313	2,845	731	
Operating expenses	3,560	2,363	513	684	3,558	2,324	549	
Administrative expenses	(1,203)	(1,110)	(92)		(1,533)	(1,419)	(108)	
Amortization of intangibles	1,065	978	83	4	1,261	1,151	106	
Commissions and expenses	6,351	4,726	1,166	460	6,598	4,901	1,278	

Includes Holding and Asset Management.

Underwriting performance by geographical	2016					2015				
	Group	Americas	The Netherlands	United Kingdom	Other ¹⁾	Group	Americas	The Netherlands	United Kingdom	Other ¹⁾
in EUR millions										
Underwriting income	23,453	9,433	2,491	9,924	1,605	22,925	9,195	2,947	8,512	2,873
Reinsurances paid to reinsurers	3,176	2,609	13	593	(39)	2,979	2,552	13	474	(10)
Underwriter claims and benefits	41,974	15,497	5,713	18,874	1,889	26,443	10,220	3,495	10,574	2,314
Commissions and expenses										
Commissions	2,929	2,613	149	175	(8)	3,313	2,805	213	234	(10)
Operating expenses	3,560	1,609	821	394	736	3,558	1,619	831	398	610
Administrative expenses	(1,203)	(970)	(11)	(79)	(143)	(1,533)	(1,205)	(13)	(102)	(102)
Amortization of intangibles	1,065	761	32	177	95	1,261	731	39	377	106

Commissions and expenses	6,351	4,013	991	667	680	6,598	3,950	1,070	907
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¹ includes all other businesses except for Americas, NL and UK.

Premium income

Americas' total premium income for the year 2016 amounted to EUR 9.4 billion and is comprised of recurring premiums for an amount of EUR 8.9 billion and single premiums for an amount of EUR 0.6 billion. The main lines of businesses contributing to Americas' total premium income are Life (EUR 6.4 billion) and Individual Savings & Retirement (EUR 1.3 billion). Premiums related to run-off business for the Americas amounted to EUR 1.7 billion, and were mainly driven by the run-off for Life reinsurance. The increase in Americas' premium income compared to 2015 is the result of an increase in renewal premiums, partly offset by a decrease in first year premiums. Total premium income of Aegon the Netherlands amounted to EUR 2.5 billion and almost entirely reflects recurring premiums. Most of Aegon the Netherlands' premium income relates to the Pensions (EUR 1.3 billion) and Life business (EUR 0.7 billion), both reported in the Life segment, and the Non-life segment with EUR 0.5 billion. The decrease in premium income compared to 2015 is mainly caused by the decrease in premium income in the Pensions business (2015: EUR 1.5 billion) and the Non-life segment (2015: EUR 0.7 billion). Total premium income of Aegon UK amounted to EUR 9.9 billion of which EUR 2.8 billion relates to recurring premiums and EUR 7.2 billion to single premiums (including premiums related to insurance policies upgraded to the retirement platform in the UK EUR 5.3 billion). Most of Aegon UK's premium income relates to the Pensions business (EUR 9.3 billion).

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents18 Business and performance **Investment performance**

The increase in premium income compared to 2015 is driven by Pensions, as the total premium income for Pensions in 2015 amounted to EUR 7.8 billion.

Commissions and expenses

In 2016, commissions and expenses in the Americas increased by 2% compared with 2015 to EUR 4.0 billion. Operating expenses in the Americas decreased by 1% compared with 2015 to EUR 1.6 billion in 2016. Expense savings and lower restructuring charges compared with 2015 were partly offset by increased variable personnel expense and the acquisition of the defined contribution business acquired from Mercer. Commissions and expenses in the Netherlands decreased compared with 2015 to EUR 991 million in 2016. Operating expenses in the Netherlands were down compared with 2015 to EUR 821 million in 2016 as the non-recurrence of one-time charges in 2015 and expense savings were partly offset by investments in new business initiatives, Solvency II related expenses, and the cost of an IT project that will result in annual expense savings going forward. Commissions and expenses in the UK decreased by 27% in 2016 to EUR 667 million compared with 2015. Operating expenses in the UK decreased by 1% in 2016 to EUR 394 million compared with 2015, mainly due to favorable currency movements, partly offset by expenses related to the acquisitions of Cofunds and BlackRock's defined contribution business.

Policyholder claims and benefits

Total policyholder claims and benefits amounted to EUR 42.0 billion in 2016 compared to EUR 26.4 billion in 2015. The increase of EUR 15.5 billion is mainly attributable to changes in the valuation of liabilities of insurance contracts (2016: EUR 16.2 billion and 2015: EUR 7.9 billion) and investment contracts (2016: EUR (0.1) billion) and 2015: EUR (6.7 billion). These movements are primarily driven by market impacts (equity markets and interest rates) and reflect changes in technical provisions resulting from fair value changes on for account of policyholder financial assets included in results from financial transactions of EUR 15.1 billion (2015: EUR (0.1) billion) (please see section A.3.2 *Investment related results and impairments*). In addition, the change in valuation of liabilities for insurance contracts includes an increase in technical provisions for life insurance contracts of EUR 2.3 billion (2015: increase of EUR 3.4 billion).

Total Claims and benefits paid amounted to EUR 25.9 billion (2015: EUR 25.3 billion) and is comprised of claims and benefits paid for Aegon's life business amounting to EUR 23.9 billion (2015: EUR 23.1 billion) and claims and benefits paid for Aegon's non-life business amounting to EUR 2.1 billion (2015: EUR 2.1 billion).

Of the total policyholder claims and benefits of EUR 42.0 billion, EUR 15.5 billion relates to the Americas, EUR 5.7 billion to the Netherlands and EUR 18.9 billion to the UK.

A.3 Investment performance**Investment performance recognized in income statement**

Amounts in EUR millions	Note	2016	2015
Investment income	A.3.1	7,788	8,525
Results from financial transactions	A.3.2	15,753	521

Gains/(losses) on investments	A.3.2	334	338
Net impairments	A.3.2	(54)	28

The following sections will provide more detail about Aegon's investment income in general and by asset class (section A.3.1) and its investment related results and impairments (section A.3.2). Section A.3.3 provides information about Aegon's gains and losses of investments recognized directly in equity. Finally, the last section A.3.4 provides information about Aegon's investments in securitizations.

A.3.1 Investment income

Americas is the largest contributor to the investment income with EUR 3,717 million (2015: EUR 3,680 million). Aegon Americas is followed by Aegon the Netherlands, EUR 2,135 million (2015: EUR 2,277 million), and Aegon UK with EUR 1,661 million (EUR 2,331 million).

Most of Aegon's investment income relates to investment income related to general account investments for an amount of EUR 5,737 million (2015: EUR 6,099 million), while the investment income for account of policyholders amounted to EUR 2,051 million (EUR 2,426 million), mainly due to the fact that the investments for account of policyholders are on a fair value through profit or loss (FVTPL) basis.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents19 Business and performance **Investment performance****Investment income by asset class**

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

Investment Income by asset class	2016			2015				
	Interest income	Dividend income	Rental income	Total	Interest income	Dividend income	Rental income	Total
Amounts in EUR millions								
Shares		1,180		1,180		1,306		1,306
Debt securities and money market instruments	4,838			4,838	5,332			5,332
Loans	1,752			1,752	1,760			1,760
Real estate			129	129			133	133
Other	(111)			(111)	(6)			(6)
Total	6,479	1,180	129	7,788	7,086	1,306	133	8,525

Included in interest income is EUR 230 million (2015: EUR 223 million) in respect of interest income accrued on impaired financial assets. The interest income on financial assets that are not carried at fair value through profit or loss amounted to EUR 5,642 million (2015: EUR 5,951 million).

Most of Aegon's investment income relates to debt securities and money market instruments, namely EUR 4,838 million (2015: EUR 5,332 million), which represent 62% (2015: 63%) of total investment income. The expenses related to debt securities and money market instruments mainly consisted of transaction costs. As the transaction costs are included in the fair value at the date of recognition, these are not separately disclosed.

A.3.2 Investment related results and impairments

First, this section will provide more information about Aegon's results from financial transactions amounting to EUR 15,753 million, followed by its gains/(losses) on investments amounting to EUR 334 million. Finally, information about Aegon's net impairments is provided, amounted to EUR (54) million.

Results from financial transactions

The income arising from financial transactions during the years 2016 and 2015 comprises of:

Results from financial transactions

Amounts in EUR millions	2016	2015
Net fair value change of General Account investments at FVtPL other than derivatives	(42)	(35)
Realized gains and losses on financial investments	327	349
Gains and (losses) on investments in real estate	70	145
Net fair value change of derivatives	239	123
Net fair value change of policyholder assets at FVtPL	15,121	(110)
Net fair value change of investments in real estate for policyholder	(26)	67
Net foreign currency gains and (losses)	41	(29)
Net fair value change on borrowing and other financial liabilities	21	9
Realized gains and (losses) on repurchased debt	1	2
Total results from financial transactions	15,753	521

The net fair value change on for account of policyholder financial assets amounted to EUR 15,121 million in 2016 (2015: EUR (110) million) and is driven by equity markets and interest rate movements. Net fair value change on for account of policyholder at FVtPL are offset by changes in technical provisions.

Gains/(losses) on investments

Gains on investments amounted to EUR 334 million in 2016 (2015: EUR 338 million) and were primarily related to a rebalancing of the investment portfolio in the United Kingdom and gains resulting from asset-liability management adjustments in the Netherlands.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents20 Business and performance **Investment performance****Net impairments**

Net impairments amounted to EUR (54) million in 2016 (2015: EUR 28 million), and were primarily related to investments in the energy industry in the United States.

A.3.3 Gains and losses recognized directly in equity

This section provides information about the gains and losses of investments recognized directly in equity. The gains and losses of investments recognized directly in equity consist of the unrealized gains or losses of available-for-sale investments.

Items that may be reclassified subsequently to profit and loss		
Amounts in EUR millions	2016	2015
Gains/(losses) on revaluation of available-for-sale investments	854	(2,175)
(Gains)/losses transferred to income statement on disposal and impairment of available-for-sale investments	(2,122)	(485)

Gains on revaluation of available-for-sale investments amounted to EUR 854 million (2015: EUR (2,175) million) reflecting favorable markets resulting in credit spreads tightening and an overall positive revaluation of available-for-sale investments.

As of December 2016, gains transferred to the income statement on disposal and impairment of available-for-sale investments amounted to EUR (2,122) million (2015: EUR (485) million) and reflect the previously held unrealized gains as bonds were sold mainly as part of the sale of the UK annuity portfolio.

A.3.4 Investments in securitization

This section provides information about any of Aegon's investments in securitizations.

Residential mortgage-backed securities

Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 4,162 million (2015: EUR 5,011 million) of residential mortgage-backed securities available-for-sale (RMBS), of which EUR 3,494 million (2015: EUR 4,232 million) is held by Aegon Americas, EUR 649 million (2015: EUR 757 million) by Aegon the Netherlands, and EUR 19 million (2015: EUR 21 million) by Aegon UK. Residential mortgage-backed securities are securitizations of underlying pools of non-commercial mortgages on real estate. The underlying residential mortgages have varying credit characteristics and are pooled together and sold in tranches. The following tables show the breakdown of Aegon USA's RMBS available-for-sale (AFS) portfolio.

2016

AFS RMBS by quality						Total	Total fair
	AAA	AA	A	BBB	<BBB	amortized cost	value
Amounts in EUR millions							
GSE guaranteed	771	500				1,272	1,271
Prime jumbo		1	1	11	170	182	194
Alt-A		39	27	11	403	479	572
Negative amortization floaters				1	679	679	712
Other housing		50	71	43	519	683	745
At December 31, 2016	771	589	98	65	1,771	3,295	3,494
Of which insured			43	8	203	254	237

AFS RMBS by quality	2015					Total	Total fair
	AAA	AA	A	BBB	<BBB	amortized cost	value
Amounts in EUR millions							
GSE guaranteed	1,471					1,471	1,493
Prime jumbo		1	1	13	199	213	224
Alt-A			30	3	476	509	596
Negative amortization floaters				1	781	782	807
Reverse mortgage RMBS				190	46	237	171
Other housing	1	43	120	93	618	876	943
At December 31, 2015	1,472	44	151	301	2,121	4,090	4,232
Of which insured			66	10	268	343	333

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents21 Business and performance **Investment performance**

A significant part of Aegon USA's RMBS holdings are rated < BBB, as the issuances took place before the United States housing downturn that started in 2007. Additionally, Aegon USA has investments in RMBS of EUR 89 million (December 31, 2015: EUR 93 million), which are classified as fair value through profit or loss.

For more information about Aegon's residential mortgage-backed securities, reference is made to pages 188-190 of the Annual Report on Form 20-F 2016 of Aegon Group.

Commercial mortgage-backed securities

As of December 31, 2016, Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 5,579 million (2015: EUR 5,636 million) of available-for-sale commercial mortgage-backed securities (CMBS), of which EUR 5,340 million (2015: EUR 4,969 million) is held by Aegon USA, EUR 195 million (2015: EUR 590 million) by Aegon UK and EUR 44 million (2015: EUR 78 million) by Aegon the Netherlands. CMBS are securitizations of underlying pools of mortgages on commercial real estate. The underlying mortgages have varying risk characteristics and are pooled together and sold in different rated tranches. The company's CMBS include conduit, large loan, single borrower, commercial real estate collateralized debt obligations (CRE CDOs), collateralized debt obligations (CDOs), government agency, and franchise loan receivable trusts.

The total gross unrealized loss on available-for-sale CMBS of Aegon Americas amounted to EUR 67 million as of December 31, 2016 (2015: EUR 39 million). The total net unrealized gain on the available-for-sale CMBS as of December 31, 2016, is EUR 87 million (2015: EUR 181 million), of which EUR 34 million (2015: EUR 61 million) relates to positions of Aegon USA, followed by Aegon UK at EUR 50 million and Aegon the Netherlands at EUR 1 million. CMBS fundamentals continued to slowly improve in 2016 as the pace of credit deterioration moderated and financing availability remained high. The percentage of delinquencies increased during the year; however, this was a result of a declining outstanding balance of CMBS. Commercial real estate valuation increases have slowed as peak levels have been reached. Liquidity remains reasonable for the CMBS market; however, credit spreads on many legacy subordinate CMBS tranches remain at wide levels.

The tables below summarize the credit quality of Aegon USA's available-for-sale (AFS) CMBS portfolio. Additionally, Aegon USA has no investments in CMBS (2015: EUR 1 million), which are classified as fair value through profit or loss.

CMBS by quality	2016					Total	
	AAA	AA	A	BBB	<BBB	amortized cost	Total fair value
Amounts in EUR millions							
CMBS	4,295	688	141	73	105	5,301	5,337
CMBS and CRE CDOs					5	5	3
At December 31, 2016	4,295	688	141	73	110	5,306	5,340

CMBS by quality	2015					Total amortized cost	Total fair value
	AAA	AA	A	BBB	<BBB		
Amounts in EUR millions							
CMBS	3,879	705	87	119	117	4,908	4,969
At December 31, 2015	3,879	705	87	119	117	4,908	4,969

For more information about Aegon's commercial mortgage-backed securities, reference is made to pages 190-191 of the Annual Report on Form 20-F 2016 of Aegon Group.

Asset-backed securities

Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 6,188 million (2015: EUR 7,583 million) of AFS ABS instruments of which EUR 3,377 million (2015: EUR 3,178 million) is held by Aegon USA, EUR 2,714 million (2015: EUR 2,396 million) by Aegon the Netherlands and EUR 97 million (2015: EUR 2,018 million) by Aegon UK. Additionally, Aegon Americas has investments in ABS of EUR 13 million (2015: EUR 12 million), which are classified as fair value through profit or loss. ABS are securitizations of underlying pools of credit card receivables, auto financing loans, small business loans, bank loans, and other receivables. The underlying assets of the asset backed securities have been pooled together and sold in tranches with varying credit ratings.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents22 Business and performance **Performance of other activities**

The total gross unrealized loss on available-for-sale ABS of Aegon Americas, Aegon the Netherlands and Aegon UK amounted to EUR 54 million as of December 31, 2016 (2015: EUR 85 million). Aegon USA has EUR 44 million (2015: EUR 55 million) of this gross unrealized loss and Aegon the Netherlands EUR 10 million (2015: EUR 29 million). In the United States, increasing investor demand has been met with new issuance in the asset-backed sector. The combination of these factors has led to varied performance by sector with most sectors exhibiting tighter credit spreads over the course of the year. The European ABS market experienced a volatile year. Macroeconomic concerns about a slowdown in global economic growth affected the market throughout the first half of the year. Performance recovered more than their initial losses after the ramifications of Brexit turned out to be less severe in the short term. As fundamental performance continues to improve, most asset classes within European ABS market are trading at their tightest levels since the financial crisis and record issuance levels are met with strong demand.

The breakdown by quality of the available-for-sale (AFS) ABS portfolio of Aegon USA, Aegon the Netherlands and Aegon UK is as follows:

ABS US, NL and UK	2016					Total amortized cost	Total fair value
	AAA	AA	A	BBB	<BBB		
Amounts in EUR millions							
Credit cards	482	28	35	30		575	589
Autos	277	9	46	42		375	374
Small business loans		1	7	6	104	118	116
CDOs backed by ABS, Corp. bonds, Bank loans	2,108	790	368	134	94	3,493	3,504
Other ABS	627	165	697	85	22	1,596	1,606
At December 31, 2016	3,495	992	1,153	296	220	6,156	6,188
	2015						
ABS US, NL and UK						Total amortized	Total fair value
Amounts in EUR millions	AAA	AA	A	BBB	<BBB	cost	
Credit cards	392	63	36			491	505
Autos	243	18	13	20		295	295
Small business loans		3	12		151	166	154
CDOs backed by ABS, Corp. bonds, Bank loans	1,747	744	304	128	107	3,031	3,004
Other ABS	736	424	1,700	333	53	3,246	3,626
At December 31, 2015	3,117	1,252	2,066	482	312	7,228	7,583

For more information about Aegon's asset-backed securities, reference is made to page 191 of the Annual Report on Form 20-F 2016 of Aegon Group.

A.4 Performance of other activities

A.4.1 Other activities income and expenses

Aegon did not recognize other material income or expenses related to other activities during 2016.

A.4.2 Material leasing arrangements

Aegon is the lessee

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

In the United States, Aegon owns many of the buildings that the Company uses in the normal course of its business, primarily as offices. Aegon owns 16 offices located throughout the United States with 2 million square feet of office space in total. Aegon also leases space for various offices located throughout the United States under long-term leases with a total square footage of 1 million.

Other principal offices owned by Aegon are located in The Hague, the Netherlands; Budapest, Hungary; Madrid, Spain. Aegon owns its headquarters and leases other offices in the Netherlands (Leeuwarden) and the United Kingdom under long-term leases.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

23 Business and performance **Performance of other activities**

Future lease payments

The operating lease obligations relate mainly to office space leased from third parties. The operating lease rights relate to non-cancellable commercial property leases.

Aegon is the lessor

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

Aegon USA has entered into a commercial property portfolio, consisting of office, retail and industrial buildings. These non-cancellable leases have remaining lease terms up to 20 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to either a fixed schedule or prevailing market conditions.

Aegon the Netherlands has entered into long-term residential property leases that can be terminated subject to a short-term notice. Under Dutch law, the maximum annual rent increase on residential property rented in the affordable housing segment is specified by the Dutch national government and equals the annual inflation rate plus a small margin.

Investment in real estate for account of policyholders

As of December 31, 2016, the investment property amounted to EUR 686 million (2015: EUR 1,022 million) and is leased out under operating leases.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

24 System of governance **General information on the system of governance**

B. System of governance

B.1 General information on the system of governance

B.1.1 Corporate governance

Aegon is governed by three main corporate bodies: the Executive Board, the Supervisory Board, and the General Meeting of Shareholders. The Executive Board is assisted in its work by the Management Board who provides vital support and expertise in safeguarding Aegon's strategic goals. The Supervisory Board has established an Audit Committee, Risk Committee, Remuneration Committee and Nomination and Governance Committee from amongst its members.

B.1.1.1 The Executive Board

Aegon's Executive Board is charged with the overall management of Aegon. It is therefore responsible for achieving Aegon's aims and developing the strategy and its associated risk profile, in addition to overseeing any relevant sustainability issues and the development of the Company's earnings. Each member has duties related to his or her specific area of expertise.

Aegon's Articles of Association determine that for certain decisions, the Executive Board must seek prior approval from the Supervisory Board and/or the approval of the General Meeting of Shareholders. In addition, the Supervisory Board may also subject other Executive Board decisions to its prior approval.

Composition of the Executive Board

On December 31, 2016, the Executive Board of Aegon consisted of: Alex Wynaendts, Chief Executive Officer (CEO) and Chairman of the Executive Board. Darryl Button, Aegon's former Chief Financial Officer (CFO), was a member of the Executive Board until he concluded his tenure with the Company on December 1, 2016.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

25 System of governance **General information on the system of governance**

The number of Executive Board members and their terms of employment are determined by the Company's Supervisory Board.

Executive Board members are appointed by the General Meeting of Shareholders, after having been nominated by the Supervisory Board.

B.1.1.2 The Management Board

Aegon's Executive Board is assisted in its work by the Company's Management Board. The Management Board includes the members of the Executive Board.

Composition of the Management Board

On December 31, 2016, Aegon's Management Board was composed of Alex Wynaendts (Chairman), Mark Bloom, Adrian Grace, Allegra van Hövell-Patrizi, Marco Keim, Gábor Kepecs, Onno van Klinken, Carla Mahieu, Mark Mullin and Sarah Russell. Darryl Button was a member of the Management Board until he concluded his tenure with the Company on December 1, 2016.

Role of the Management Board

The Management Board is entrusted with the overall strategic direction of Aegon Group, particularly with respect to:

Setting, implementing and achieving Aegon Group's business objectives and strategy, as well as ensuring the delivery of results;

Discussing and sponsoring Aegon Group's policies;

Discussing and sponsoring enterprise risk management, in particular:

Embedding of risk strategy into business strategy and enterprise risk management into business operations;

Reviewing risk governance structures, risk tolerance statements, Aegon Group's level risk policy limits, the pricing and product development policy, and the introduction of new risk policies; and

Supervising compliance with the Enterprise Risk Management framework and policies.

Corporate responsibility issues that are relevant to Aegon Group;

Sharing relevant information; and

Providing vital support and expertise, together with making recommendations to Management Board members on strategic business matters and to the Executive Board on all strategic matters that affect the business of Aegon Group (e.g. cross-border business initiatives, capital allocation and Mergers & Acquisitions).

Each individual Management Board member is accountable for the operations and management in the unit(s) or the function(s) that the member is responsible for, in line with the Company's policies, values and principles and compliance standards.

B.1.1.3 The Supervisory Board and its committees

Aegon's Supervisory Board oversees the management of the Executive Board, in addition to the Company's business and corporate strategy. The Supervisory Board must take the interests of all Aegon stakeholders into account. The Supervisory Board operates according to the principles of collective responsibility and accountability.

Composition of the Supervisory Board

Members of the Supervisory Board are appointed by the General Meeting of Shareholders, following nomination by the Supervisory Board. Aegon aims to ensure that the composition of the Company's Supervisory Board is well balanced in terms of professional background, geography and gender. Aegon has established a profile that outlines the required qualifications of its members. Supervisory Board members are no longer eligible for (re)appointment after reaching the age of 70, unless the Supervisory Board makes an exception. Remuneration of the Supervisory Board members is determined by the General Meeting of Shareholders. On December 31, 2016, Aegon's Supervisory Board consisted of eight members.

Committees

The Supervisory Board also oversees the activities of its committees. These committees are composed exclusively of Supervisory Board members, and deal with specific issues related to Aegon's financial accounts, risk management, executive remuneration and appointments. These committees are the:

Audit Committee;

Risk Committee;

Remuneration Committee; and

Nomination and Governance Committee.

Table of Contents

26 System of governance **General information on the system of governance**

Audit Committee

Since Aegon has both an Audit Committee and a Risk Committee, the risk management responsibilities stated in the Dutch Corporate Governance Code are assigned to the Risk Committee. With regard to the oversight of the operation of the risk management framework and risk control systems, including supervising the enforcement of relevant legislation and regulations, the Audit Committee operates in close coordination with the Risk Committee. Certain committee members partake in both committees and a combined meeting of the Audit and Risk Committees takes place on an annual basis.

The main role and responsibilities of the Audit Committee are to assist and advise the Supervisory Board in fulfilling its oversight responsibilities regarding:

The integrity of the consolidated interim and full-year financial statements and financial reporting processes;

Internal control systems and the effectiveness of the internal audit process; and

The performance of the external auditors and the effectiveness of the external audit process, including monitoring the independence and objectivity of PwC.

The Audit Committee reports to the Supervisory Board on its activities, identifying any matters about which it considers action or improvements are needed, and making recommendations as to the steps to be taken. For more information about the functioning of the Audit Committee, please see the Audit Committee Charter on aegon.com.

Risk Committee

The risk management responsibilities as mentioned in the Dutch Corporate Governance Code are allocated to the Risk Committee.

The main role and responsibilities of the Risk Committee are to assist and advise the Supervisory Board in fulfilling its oversight responsibilities regarding the effective operation and appropriateness of the Enterprise Risk Management (ERM) framework and internal control systems of Aegon N.V. and its subsidiaries and affiliates that comprise the Aegon Group. These include:

Risk strategy, risk tolerance and risk governance;

Product development and pricing;

Risk assessment;

Risk responses and internal control effectiveness;

Risk monitoring; and

Risk reporting.

Furthermore, the Risk Committee regularly reviews risk exposures as they relate to capital, earnings and compliance with risk policies. The Company's risk management is an important topic for the Supervisory Board. For more information about the functioning of the Risk Committee, please see the Risk Committee Charter on aegon.com.

Remuneration Committee

The main role and responsibilities of the Remuneration Committee are to advise the Supervisory Board and prepare decisions to be taken by the Supervisory Board. The Remuneration Committee is designated to safeguard sound remuneration policies and practices within Aegon Group by overseeing the development and execution of these policies and practices. These include:

Reviewing the Aegon Group Global Remuneration Framework and making recommendations on the outcomes;

Preparing recommendations regarding variable compensation both at the beginning and after the end of the performance year;

Overseeing the remuneration of the Executive Board, Identified Staff and Aegon Group Control functions; and

Preparing the information provided to shareholders on remuneration policies and practices, including the Remuneration Report.

Nomination and Governance Committee

The main role and responsibilities of the Nomination and Governance Committee are to assist and advise the Supervisory Board in fulfilling its responsibilities in the areas of Human Resources Management and Corporate Governance. These include:

Board member and senior management succession planning;

Drawing up selection criteria and procedures;

Advising and proposing on nominations, appointments and reappointments;

Reviewing and updating board profile and charters for board and committees;

Discussing the annual global employee survey; and

Overseeing the corporate governance structure of the Company, compliance with the Dutch Corporate Governance Code; and

Any other applicable corporate governance legislation and regulations.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

27 System of governance **General information on the system of governance**

B.1.1.4 General Meeting of Shareholders

A General Meeting of Shareholders is held at least once a year and, if deemed necessary, the Supervisory Board or Executive Board of the Company has the authority to convene an Extraordinary General Meeting of Shareholders. The main function of the General Meeting of Shareholders is to decide on matters such as the adoption of annual accounts, the approval of dividend payments and (re)appointments to the Supervisory Board and Executive Board of Aegon.

B.1.1.5 Key Functions

A description of the main roles and responsibilities of key functions, as well as their necessary and operational independence is disclosed in section B.2 Fit and proper requirements. Reference is made to sections B.3, B.4, B.5 and B.6 for more details on Aegon's key functions.

B.1.1.6 Material changes in the system of governance

Changes in the composition of the Executive Board and Management Board implemented during 2016 represented material changes in the system of governance. The Nomination and Governance Committee reviewed the composition of both the Executive Board and Management Board, together with the functioning and effectiveness of the Board members, both individually and as a team. In particular, the Committee discussed the search process and appointment of a new CFO following the resignation of Darryl Button. The Committee discussed the rationale supporting the proposal to the Annual General Meeting of Shareholders on May 19, 2017, to appoint Matthew Rider as Aegon's CFO.

The Committee also discussed the expansion of the Management Board with the addition of the General Counsel, Global Head Human Resources, Chief Technology Officer and Chief Executive Officer of Aegon Asset Management.

Risk management, internal control systems and reporting procedures

For a description of how the risk management and internal control systems and reporting procedures are implemented consistently, please see section B.4 Internal control system. Information on material intra-group outsourcing arrangements is described in section B.7 Outsourcing.

B.1.2 Remuneration policy

The Aegon Group Global Remuneration Principles, as set out in the Aegon Global Remuneration Framework, have been applicable in the Aegon Group and consistently applied to regional and local remuneration policies and practices. The below provides a summary of Aegon's Remuneration policy. For further details, reference is made to the Remuneration Report on page 113 of the IFRS Annual Report on Form 20-F 2016 of Aegon Group.

Global Remuneration Principles

The Aegon Group Global Remuneration Principles provide the foundation for remuneration policies and practices throughout Aegon Group.

Aegon's Global Remuneration Framework (AGRF) contains the guiding principles to support sound and effective remuneration policies and practices by ensuring consistency throughout Aegon Group.

Aegon's remuneration policies are derived from the AGRF, which includes the Remuneration Policy for the Executive Board. These policies define specific terms and conditions for the employment of various groups of staff.

For compensation of staff outside Europe, the Company obtained shareholder approval at the Annual General Meeting of Shareholders on May 20, 2016, to pay a maximum of 200% of base salary as variable compensation. The Company's capital is not adversely impacted by the maximum variable compensation that could be paid out.

Role of risk management and regulatory compliance

The risk management and regulatory compliance functions are involved in the design and execution of remuneration policies and practices.

Risk management is involved in deciding which positions are deemed Identified Staff. Furthermore, risk management and regulatory compliance are involved in order to ensure exceptions to policies to reflect local practices or regulations do not undermine effective risk management and that sufficient mitigating measures are undertaken.

In addition, the risk management and regulatory compliance functions, together with the Human Resources and Finance functions, are responsible for the execution of the various measures that ensure the AGRF and associated practices are aligned with the defined risk tolerances and behaviors.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

28 System of governance **General information on the system of governance**

General compensation practices

Aegon has a pay philosophy that is based on total compensation. The aim is for total remuneration for experienced and competent employees to be consistent with those in the markets in which Aegon operates and competes for employees.

Variable compensation, if any, is capped at an appropriate level as a percentage of base pay. Variable compensation for senior management is usually paid out in cash and shares over multiple years, and is subject to further conditions being fulfilled. Additional holding periods may apply to shares after they have vested, restricting their sale for a further one to three years. Variable compensation already paid out may also be retrieved under certain circumstances (Claw-back).

Pension arrangements are typically offered in line with market practice.

Supervisory Board Remuneration Policy 2016

Aegon's Remuneration Policy for members of its Supervisory Board is aimed at ensuring fair compensation, and protecting the independence of the Supervisory Board's members. Terms and conditions for members of the Supervisory Board are part of Aegon's broader Remuneration Policy, and are the responsibility of the Company's Remuneration Committee.

Fees and entitlements

Members of the Supervisory Board are entitled to:

A base fee for the regular Supervisory Board meetings;

An attendance fee for additional Supervisory Board meetings attended;

A committee fee for members of each of the Supervisory Board's Committees;

An attendance fee for each Committee meeting attended; and

An additional fee for attending meetings that require intercontinental travel.

Each of these fees is a fixed amount. Members of Aegon's Supervisory Board do not receive any performance or equity-related compensation, and do not accrue pension rights with the Company. These measures are designed to ensure the independence of Supervisory Board members and to strengthen the overall effectiveness of Aegon's corporate governance.

Executive Board remuneration

The Executive Board Remuneration Policy was adopted at the General Meeting of Shareholders on May 12, 2011. The Policy will remain in force until such time as the Supervisory Board proposes changes or amendments. Any material changes in the Executive Board Remuneration Policy will be referred to the General Meeting of Shareholders for adoption.

Role of the Remuneration Committee

The Supervisory Board has overall responsibility for the Company's Remuneration Policies, including the Executive Board Remuneration Policy. Members of the Remuneration Committee are drawn from the Supervisory Board.

Each year, Aegon's Remuneration Committee reviews Aegon's remuneration policies to ensure they remain in line with prevailing international standards. This review is based partly on information provided by Aegon's external advisor, Towers Watson. The advisor does not, however, advise individual members of the Executive and Supervisory Boards.

The Remuneration Committee may recommend changes to the policies to the Supervisory Board.

Review of the Remuneration Policy

Aegon's Executive Board Remuneration Policy is reviewed every year by the Remuneration Committee. The policy applies to all members of Aegon's Executive Board.

Ensuring pay remains competitive

The Company regularly compares its levels of executive remuneration with those of other comparable companies.

The peer group comprises the following 14 companies: Allianz, Aviva, Axa, CNP Assurances, Generali, Legal & General, Mapfre, Münchener Rückversicherung, NN Group, Old Mutual, Prudential plc., Standard Life, Swiss Re and Zurich Financial Services.

In addition, in order to monitor alignment with the general industry in the Netherlands, a reference group is used. This is comprised of the 12 leading companies listed on Euronext Amsterdam, excluding financial services providers. The Supervisory Board regularly reviews the composition of the two groups in order to ensure that they continue to provide a reliable and suitable basis for comparison.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

29 System of governance **General information on the system of governance**

Total compensation

For each member of the Executive Board, Aegon's Supervisory Board determines a maximum total compensation, reflecting the specific roles and responsibilities of the individual.

The Supervisory Board conducts regular scenario analysis to determine the long-term effect on the level and structure of compensation granted to members of the Executive Board. The Supervisory Board (Remuneration Committee) discussed and endorsed the 2016 total compensation for the Executive Board.

Fixed compensation

It is the responsibility of the Supervisory Board to determine fixed compensation for members of the Executive Board based on their qualifications, experience and expertise.

Variable compensation

Variable compensation is based on a number of individual and company performance indicators that are linked to the Company's objectives, business strategy, risk tolerance and long-term performance.

Performance is determined by using a mix of financial and non-financial indicators. The individual performance criteria concern a basket of strategic and personal objectives related to Aegon's strategy. The type of performance indicators are selected in accordance with the long-term goals of the Company. The targets and levels are agreed by the Supervisory Board.

Performance is assessed by Aegon's Remuneration Committee and validated by the full Supervisory Board. Each year, a one-year target is set for each performance indicator. By paying half of the variable compensation in cash and the other half in shares, together with adding deferral and additional holding periods to the variable compensation that is allocated, Aegon believes that the long-term interests of Executive Board members are aligned with the interests of Aegon and its stakeholders.

All variable compensation is conditionally granted at the beginning of each performance period. Variable compensation is allocated once the accounts for the financial year in question have been adopted by the Company's General Meeting of Shareholders and after an ex-ante assessment.

The allocated variable compensation consists of equal parts of cash and shares, of which 40% is paid out (or vests) in the year following the performance year, and 60% is deferred to later years and vests in equal individual parts in the 3 years following. These deferred portions remain conditional until it vests.

Risk adjustment methodology (ex-ante)

At the end of the performance period, but prior to allocation of variable compensation, the Supervisory Board assesses whether (downward) modifications are needed. For this purpose, quantitative and qualitative measures at Aegon Group, regional unit and individual level are taken into account.

Ex-post assessment and discretionary adjustments

The Supervisory Board uses judgment in the assessment of the outcome of strategic/personal targets to ensure that, taken together, they represent a fair reflection of the overall performance of the Executive Board member over the performance period.

In addition, the Supervisory Board applies an ex-post risk assessment to deferred payouts of variable compensation to determine whether allocated (that is, unvested) variable compensation should become unconditional (meaning it vests) or should be adjusted. This ex-post assessment is based on informed judgment by the Supervisory Board, taking into account significant and exceptional circumstances that are not (sufficiently) reflected in the initially applied performance indicators.

Deferred variable compensation may only be adjusted downwards. Ex-post, risk-based assessments concern deferred variable compensation, not fixed compensation.

Circuit breaker

Variable compensation is only paid if the threshold level set for that performance indicator is reached.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

30 System of governance **Fit and proper requirements**

Claw-back provision

Where required based on the regulations that apply from time to time, where variable compensation is based on incorrect data (including non-achievement of performance indicators in hindsight), or in the event of material financial restatements or individual gross misconduct, Aegon's Supervisory Board is obliged to claim back variable compensation that has already been paid out or vested.

Pension arrangements

Members of Aegon's Executive Board are offered pension arrangements and retirement benefits. Benefits offered are consistent with Executive Board members' agreements. Pension arrangements do not include discretionary elements.

The arrangements with the members of the Executive Board include retirement provisions that allow benefits to be taken at the end of the term. The retirement arrangements stem from pre-Executive Board membership. The bespoke arrangements are based on contributions to Defined Benefit and/or Defined Contribution plans that are higher than the regular plans that apply to other staff. This implies that it is possible for the Executive Board members to take early retirement from a certain age or at the end of their term.

Pensions include provisions that allow for taking early retirement. Differences exist based on geographical region and local market practices for comparable positions. These differences result in the possibility to take early retirement from a certain age or at end of term.

Loans

Aegon does not grant Executive 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 the Company's Supervisory Board.

Terms of Engagement Agreement

Members of the Executive Board are appointed for four years, and may then be re-appointed for successive mandates also for a period of four years.

Executive Board members have an engagement agreement with Aegon N.V., rather than a contract of employment. Members of the Executive Board may terminate their engagement agreement with a notice period of three months. The Company must give six months' notice if it wishes to terminate the agreement of a member of its Executive Board.

The arrangements with current members of the Executive Board contain provisions for severance payments in the event that their agreement is terminated as a result of a merger or takeover.

It is expected that the terms of the engagement agreements will remain largely unchanged during 2017.

For information regarding material transactions with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the Executive Board or Supervisory Board, please refer to section A.1.8

Related party transactions.

B.2 Fit and proper requirements

B.2.1 Requirements

The Executive Board

The Executive Board is charged with the management of the Company, which means, among other things, that it is responsible for setting and achieving the Company's objectives, strategy and the associated risk strategy and risk tolerance, and ensuring delivery of results and corporate social responsibility issues that are relevant to the Company. The Executive Board is accountable for these matters to the Supervisory Board and the General Meeting of Shareholders. Responsibility for the management of the Company is vested collectively in the Executive Board. The Executive Board is responsible for compliance with all relevant laws and regulations, for managing the risks attached to the Company's activities and for the financing of the Company. The Executive Board reports on these issues to and discusses the internal risk management and control systems with the Supervisory Board, the Audit Committee of the Supervisory Board, and the Risk Committee of the Supervisory Board.

Individual members of the Executive Board may be charged with specific parts of the managerial tasks, without prejudice to the collective responsibility of the Executive Board as a whole. The Executive Board is collectively responsible for decisions, even if they are prepared by individual members of the Executive Board. An individual member of the Executive Board may only exercise such powers if these are explicitly attributed or delegated to the individual member and the individual member may never exercise powers beyond those exercisable by the Executive Board as a whole. The division of tasks within the Executive Board is determined (and amended, if necessary) by the Executive Board, subject to the approval of the Supervisory Board. Executive Board members especially charged with particular managerial tasks are primarily responsible for the risk control and monitoring of the managerial tasks concerned.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

31 System of governance **Fit and proper requirements**

To fulfil these tasks, the specific skills that members of the Executive Board should have at their disposal include:

Leadership (i.e. ideas, people and change);

Strategic thinking and sound judgment, financial and commercial acumen, particularly around complex and inorganic change activities;

Influencing and relationship building;

Communication;

Delivery with clear focus on outcomes; and

Innovation and problem solving and customer-centric.

Moreover, the members of the Executive Board should possess knowledge and experience in the areas of having a 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 specifically, a good understanding of the different regimes associated with insurance and investments, including capital management and regulatory frameworks. The Executive Board should possess extensive industry and executive management experience in a number of financial, operational and strategic roles in addition to being an industry leader respected by regulators, trade associations and government bodies. In addition, the Executive Board should have a proven ability to lead complex transactions across an organization, including inorganic activity.

The Management Board

As stated in section B.1.1.1, the Executive Board is assisted in its work by the Company's Management Board. The Management Board is entrusted with the overall strategic direction of Aegon Group, particularly with respect to Aegon Group's business objectives and strategy as well as ensuring delivery of results, Aegon Group's policies, Enterprise Risk Management, corporate responsibility issues that are relevant to Aegon Group.

Management Board members are collectively responsible for managing Aegon's senior leadership talent. Management Board members have a responsibility to manage talent consistently at all Aegon's business units around the world. The Management Board has full information rights vis-à-vis all countries and business lines within the Aegon Group.

The Management Board has, in performing its duties, access to the expertise of and support and services from all Corporate Center departments. In undertaking its responsibilities the Management Board acts in accordance with the interests of Aegon Group and the business units connected with it, taking into consideration the interests of Aegon

Group's stakeholders. Members of the Management Board express views with respect to important affairs, matters of principle and matters of general interest in accordance with final decision-making, and with due observance of each member's individual responsibilities.

All members of the Executive and Management Boards (as day-to-day policymakers of Aegon) have been approved by the Dutch supervisory authorities on fitness and propriety prior to their respective appointments and fulfil these requirements on an ongoing basis.

The Supervisory Board

Aegon's Supervisory Board oversees the management of the Executive Board, in addition to the Company's business and corporate strategy. The Supervisory Board must take the interests of all Aegon stakeholders into account. The Supervisory Board operates according to the principles of collective responsibility and accountability.

The Supervisory Board, as a collective, should have the following qualifications:

An international composition;

Experience with, and understanding of the administrative procedures and internal control systems; an affinity with and knowledge of the industry, its clients, its products and services, the financial services market and Aegon'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

Expertise in financial, accounting and business economics, and the ability to judge issues in the areas of risk management, solvency, actuary, currencies and investment and acquisition projects.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

32 System of governance **Fit and proper requirements**

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 critical attitude with regard to the other Supervisory Board members and the Executive Board; an international orientation; and outside experience.

All members of Aegon's Supervisory Board have been approved by the Dutch supervisory authorities, the Dutch Central Bank (DNB) and the Netherlands Authority of Financial Markets (AFM), with regard to fitness and propriety prior to their appointment and fulfil these requirements on an ongoing basis.

Other key functions

Furthermore, with regard to the Solvency II Delegated Regulation, Aegon has implemented the following four key control functions: risk management, compliance, internal audit and the actuarial function. These functions have been in place within Aegon for many years.

Risk management

The Aegon Group CRO is the function holder for risk management. The Aegon Group CRO is also member of the Management Board and of high level Risk Committees. For more information about the risk management system and its functions, please refer to section B.3 Risk management system.

Compliance

The Head of Operational & Conduct Risk Management (OCRM) is the key function holder for Compliance. OCRM reports to the Aegon Group 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 regulatory compliance function supports the Head of OCRM in meeting its responsibilities as Solvency II key function holder for Compliance. For more details about the compliance function reference is made to section B.4 Internal control system.

Internal Audit

The Global Head of Internal Audit 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 to the CEO and Supervisory Board Audit Committee. For more details about the Internal Audit function refer to section B.5 Internal audit function.

Actuarial function

The actuarial function holder is the Global Chief Actuary/Head of Underwriting Risk Management and is part of the second line of defense at Aegon Group level with a functional line to the CFO for financial control related aspects. For more details about the Actuarial function please refer to section B.6 Actuarial function.

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 Supervisory Board of Aegon N.V. Changes to the resources require approval from the key function. Issues can be brought forward to the Supervisory Board of Aegon N.V. for resolution.

The necessary operational independence of the key functions is documented as part of the charters agreed with the Supervisory Board of Aegon N.V. Issues can be brought forward to the Supervisory Board of Aegon N.V. for resolution.

B.2.2 Process for assessment

In accordance with the Dutch Financial Supervision Act, Aegon has identified, in addition to the members of the Management Board and Supervisory Board, those persons that fulfil key functions as referred to in Articles 3:271 and 3:272, in connection with Articles 3:8 and 3:9 of the Dutch Financial Supervision Act. This group of persons is broader than but includes all persons that fulfil key functions as referred to in Art. 294 (2) of the Solvency II Delegated Regulation. These persons are subject to a pre-employment screening prior to their employment within Aegon, as well as a propriety assessment by the Dutch supervisory authorities prior to their appointment in a key function.

Ongoing compliance with propriety requirements of the persons that effectively run the undertaking or have other key functions is a joint responsibility of the respective person as well as Aegon.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents
33 System of governance Risk management system including the Own Risk and Solvency Assessment

Fitness of the persons that effectively run the undertaking or have other key functions is determined at the point of selection as well as thereafter. As regards the point of selection, Aegon has drawn up a specific job profile for each function. These profiles detail the requirements in terms of the level of skills, knowledge and experience required to successfully fulfil the specific position within the Company. The selection of the jobholder takes place by assessing the candidate for a position against these specific job requirements. The score on the three elements (expertise, knowledge and experience) is balanced and leads to potential recruitment in the position. Once selected, fitness of a specific person for a function is continuously assessed against this job profile. The ongoing compliance with fitness requirements is monitored as part of the regular human resource cycle within Aegon. Regular formal assessments of performance against the requirements are part of this cycle and are documented for record keeping purposes. In the human resources cycle, performance management is an important element in which targets are set and the results are monitored to assess if the jobholder continues to meet both the specific job requirements and the fitness requirements.

B.3 Risk management system including the Own Risk and Solvency Assessment
B.3.1 Risk management system
B.3.1.1 Aegon's Enterprise Risk Management framework

Aegon's ERM framework is designed and applied to identify and manage potential events and risks that may affect Aegon. The aim is to identify and manage individual and aggregate risks within Aegon's risk tolerance in order to provide reasonable assurance regarding the achievement of Aegon's objectives. The ERM framework applies to all material businesses of Aegon for which it has operational control. Aegon's businesses are required to either adopt the Group level ERM framework directly, or tailor it to local needs, while meeting the requirements of the Group level ERM framework.

For Aegon, enterprise risk management involves:

Understanding the risks that Aegon faces;

Maintaining a company-wide ERM framework for identifying, measuring and managing all material risks to which Aegon is exposed;

Maintaining risk tolerances and supporting policies to limit exposure to a particular risk or combination of risks; and

Monitoring risk exposure and actively maintaining oversight of Aegon's overall risk and solvency positions. By setting certain pre-defined tolerances and adhering to policies that limit the overall risk to which the Company is exposed, Aegon is able to accept risk with the knowledge of potential returns and losses.

The ERM framework consists of various components, as shown below:

Risk strategy and risk tolerance

The formulation of the risk strategy starts with the notion that taking a risk should be based on serving a customer need. Next the competence of Aegon to manage the risk is assessed and Aegon's risk preferences are formulated, taking into account Aegon's risk capacity. The risk preferences eventually lead to a targeted risk profile that reflects the risks Aegon wants to keep on the balance sheet and which risks Aegon would like to avoid. Aegon's tolerance for risk is established in order to assist management in carrying out Aegon's strategy within the resources available to Aegon Group.

Risk identification and risk assessment

Aegon has identified a risk universe that captures all known material risks the Company is exposed to. An Emerging Risk process is in place to ensure on-going appropriateness of the risk universe and the risk management framework. In order to assess all risks, a consistent methodology for measuring risks is required. Aegon's methodology for this is documented in a manual and kept up-to-date. The risk metrics are embedded in Aegon's key reports and are used for decision making.

Risk response

Aegon distinguishes the following risk responses:

When the risk exposure is within the set risk tolerance, management can accept the risk; and

When exposure exceeds the risk tolerance of management or cost-benefit analysis supports further actions, management can decide to control, transfer or avoid the risk.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

34 System of governance **Risk management system including the Own Risk and Solvency Assessment**

Risk monitoring and reporting

Risks are monitored regularly and reported on a periodic basis, at least quarterly. The reports show the impact of key financial, underwriting and operational risk drivers on earnings and capital for the various risk types separately as well as on an aggregate level.

Risk exposures are compared with the limits as defined by Aegon's risk tolerance statements. Reporting also includes risk policy compliance and incident and compliance reporting. Finally, top risks derived from Aegon's strategy and the day-to-day business are discussed, as well as forward looking points for attention. Where necessary mitigating actions are taken and documented.

Risk control

A system of effective controls is needed to mitigate the risks identified. In Aegon's ERM framework risk control includes risk governance, internal control framework, risk policies, model validation, risk embedding, risk culture and compliance.

B.3.1.2 Aegon's risk governance framework

Aegon's risk management is based on clear, well-defined risk governance. The goals of risk governance are to:

Clearly define roles and responsibilities, and risk reporting procedures for decision makers;

Institute a proper system of checks and balances;

Manage risk in line with the targeted risk profile; and

Facilitate risk diversification.

Aegon's risk management framework is represented across all levels of the organization, and Aegon has a comprehensive range of company-wide risk policies that detail specific operating guidelines and limits. Any (near) breach of policy limits triggers remedial action or heightened monitoring. Additional risk policies may be developed and implemented at a local level to cover situations specific to particular regions or business units.

Aegon's risk management governance structure has four basic layers, as shown below:

The Supervisory Board;

The Executive Board and the Management Board;

The Group Risk & Capital Committee (GRCC) and its sub-committees; and

The Regional Risk & Capital Committees.

1. Supervisory Board

The Supervisory Board is responsible for overseeing Aegon's Enterprise Risk Management (ERM) framework, including risk governance and measures taken to ensure risk management is integrated properly into the Company's broader strategy. The Supervisory Board oversees the Company's risk exposure as it relates to capital, earnings and Solvency II and compliance with Aegon's Group risk policies.

2. Executive Board and Management Board

Aegon's Executive Board has an overall responsibility for risk management. The Executive Board adopts the risk strategy, risk governance, risk tolerance and material changes in risk methodology and risk policies. The Group CRO has a standing invitation to attend Executive Board meetings and a direct reporting line to the Supervisory Board to discuss ERM and related matters. The Group CRO is a member of the Management Board.

The Executive Board is assisted by the Management Board. The Management Board discusses and sponsors ERM, in particular:

Embedding of risk strategy into business strategy and Enterprise Risk Management into business operations;

Reviewing risk governance structures, risk tolerance statements and Aegon Group level risk policy limits;

The Pricing and Product Development Policy;

The introduction of new risk policies; and

Compliance with the ERM framework and policies.

The Executive Board and Management Board are supported by the Group Risk & Capital Committee.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

35 System of governance **Risk management system including the Own Risk and Solvency Assessment**

3. Group Risk & Capital Committee (GRCC)

The GRCC is Aegon's top level risk committee. The Executive Board established the GRCC to facilitate proper capital and risk management. It is responsible for managing Aegon's balance sheet at a global level and is in charge of risk oversight, risk monitoring and risk management related decisions on behalf of the Executive Board. The GRCC focuses on managing Aegon's overall solvency position, while ensuring that risk-taking is within the risk tolerance statements and Aegon's Group Risk policies. The GRCC informs the Executive Board about any identified (near) breaches of overall tolerance levels, as well as any potential threats to the Company's solvency, liquidity or operations. The GRCC is comprised of the Group CFO, the Group CRO, the Head of Corporate Financial Center, the Global Chief Actuary, the CFOs and CROs of the Americas, the Netherlands, the United Kingdom, the CFOs of Asia and Aegon Asset Management and the Global Head of Financial Risk Management.

4. Regional Risk & Capital Committee (RCC)

Each of Aegon's reporting units has a Risk & Capital Committee (RCC). The role and responsibilities of the RCCs are set out in their respective charters, and are similar to those of the GRCC, but tailored to local circumstances. The regional RCCs and the GRCC interact on the topics relevant for Aegon Group, as determined by the respective charters and the ERM framework.

The GRCC has three sub-committees: the ERM framework, Accounting and Actuarial Committee (ERMAAC), the Non-Financial Risk Committee (NFRC) and the Model Validation Committee (MVC).

The ERM framework, Accounting and Actuarial Committee (ERMAAC)

The purpose of the ERMAAC is to assist the GRCC with accounting, actuarial and risk management framework setting, and maintenance across all balance sheets based on the various applicable standards (Solvency II and IFRS). Framework setting and maintenance includes policies, standards and guidelines across the Finance, Actuarial and Risk disciplines, methodologies and assumptions and the Solvency II PIM.

The Non-Financial Risk Committee (NFRC)

The NFRC is an advisory committee that exchanges information on non-financial risk matters and prepares decision making for the GRCC or other relevant decision making bodies, in line with the applicable governance requirements. The NFRC receives and reviews quarterly reports on non-financial risk exposure, including topics related to regulatory compliance and conduct.

The Model Validation Committee (MVC)

The MVC is responsible for approving all model validation reports within Aegon. The committee reports its independent opinions to the GRCC and Executive Board to provide information on model integrity and recommendations for further strengthening of models.

2016 review of risk committee structure

In 2016, the risk committee structure was re-assessed and restructured with the aim to further integrate governance for risk, actuarial and finance matters. The scope of the GRCC has been extended and representation of the Risk function was strengthened. The scope includes both financial and non-financial (operational) risks.

In addition, the Enterprise Risk Management Committee (ERMC) was replaced in 2016 by the ERM framework, Accounting and Actuarial Committee (ERMAAC), and its membership was also broadened.

Group-wide risk function

In addition to the four basic governance layers described above, Aegon has an established group-wide risk function. It is the objective of the Risk Management function to ensure the continuity of the Company through safeguarding the value of existing business, protecting Aegon's balance sheet and reputation, and through supporting the creation of sustainable value for all stakeholders.

In general, the Risk Management function supports the Executive Board, Management Board, Supervisory Board and business unit's Boards in ensuring that the Company reviews, assesses, understands and manages Aegon's risk profile. Through oversight, the Risk Management function ensures the group-wide risk profile is managed in line with Aegon's risk tolerances, and stakeholder expectations are managed under both normal business conditions and extreme events.

To realize the objective of the Risk Management function, the following aspects are important:

Advising on risk-related matters including risk tolerance, risk governance, risk methodology and risk policies;

Supporting and facilitating the development, incorporation, maintenance and embedding of the Enterprise Risk Management (ERM) framework and sound practices; and

Challenging, monitoring and overseeing of the implementation and effectiveness of ERM practices.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

36 System of governance **Risk management system including the Own Risk and Solvency Assessment**

With respect to the aspects outlined above, amongst others the following main roles and responsibilities can be distinguished:

Developing and maintaining the ERM framework for identifying, measuring and managing all material risks the Company is exposed to and protecting Aegon's reputation;

Developing and maintaining Aegon's risk methodology;

Monitoring the ERM framework and overseeing compliance with the Aegon Group wide risk governance requirements, risk strategy and risk tolerances, risk policies and risk methodology;

Supporting the businesses in implementing the ERM framework, risk methodology and standards of practice where needed;

Sharing of good practices and working together on relevant case studies and external standards in order to develop, adopt and maintain standards of practice throughout Aegon;

Providing subject matter expertise and overseeing critical business initiatives to strengthen risk management activities, to improve the risk profile and to resolve the impact of risk events and control deficiencies;

Ensuring appropriate risk management information is prepared for use by the GRCC, the Management Board, the Executive Board and the Supervisory Board; and

Embedding robust oversight and strong risk management culture and processes across Aegon.

Aegon's risk management staff structure is fully integrated. Business unit CROs have either a direct reporting line to the Group CRO or one of the regional CROs that reports directly to the Group CRO.

Lines of defense

Aegon's risk management structure is organized along three lines of defense to ensure conscious risk-return decisions and to limit the magnitude of potential losses. The Company's first line of defense, including the business and support functions, has direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerances and risk policies. The second line of defense the Risk Management function facilitates and oversees the effectiveness and integrity of ERM across the Company. The third line of defense the Audit function provides independent assurance opinions on the effectiveness of the systems of internal control, risk management and

governance.

Model validation process

Aegon has group-wide requirements in place on model validation. The requirements are covered in the Model Validation Framework, including the Model Validation and Model Change policies. The Model Validation function is part of the Risk Management function, and is independent from model owners and business users. The model validation reports are approved in the independent Model Validation Committee (MVC).

The purpose of the model validation process is to assess the model's integrity, including the performance of the model and the ongoing appropriateness of its specifications. Before model validation by Aegon's second line of defense can take place, responsible management – the first line of defense – should have ensured that the model in scope of the validation meets the requirements as set out in the Model Validation Framework. Among other things, the Model Validation function assesses the appropriate use of test tools under the responsibility of local management and also performs its own independent testing. The findings of the model review are documented and result in a model opinion. Identified gaps need to be closed by the model owners according to a gap closure plan.

Solvency II PIM governance

The governance of Aegon's Solvency II Partial Internal Model (PIM) is fully integrated in Aegon's risk management system and governance structure. Aegon'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.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

37 System of governance Risk management system including the Own Risk and Solvency Assessment

The Risk Management function is responsible for design of the Solvency II PIM. All Solvency II PIM models have been independently validated. After passing the initial validation, 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. 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. The overarching validation of the Solvency II PIM is updated annually. The last overarching validation was completed at the end of 2016, with a positive conclusion.

In 2016, the Model Validation Framework was further updated to include recommendations from the College of Supervisors following the approval of the Solvency II PIM. Material governance updates to the Model Validation Policy included:

Explicit mentioning of independent Audit assurance as part of the model change governance controls; and

Adding the requirement that the overarching validation on the Solvency II PIM is updated annually. Material governance updates to the Model Change Policy included:

The addition of an appendix that provides an overview of Solvency II PIM methodology changes that will be considered as major Solvency II PIM model changes, requiring supervisory approval before implementation; and

The method of aggregation of minor model changes to evaluate whether they should be treated as a major model change.

The Model Validation Committee has been formalized as an independent subcommittee of the GRCC and its charter has been approved by the Executive Board.

B.3.2 Own Risk and Solvency Assessment

B.3.2.1 ORSA process overview

The Own Risk and Solvency Assessment (ORSA) Process has a primary purpose of providing a holistic, inter-connected view of a) Aegon's business strategy, b) the risks to which the business is exposed and c) Aegon's capital levels. It assesses the financial security of the business given the risks Aegon is exposed to. The ORSA captures the key elements of the risk management and capital management processes which support the Company in pursuit of fulfilling its business strategy. The ORSA process (as illustrated below) encapsulates the link between business strategy, risk and capital.

Own Risk and Solvency Assessment

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

38 System of governance **Risk management system including the Own Risk and Solvency Assessment**

The ORSA is integrated within the Company through Aegon's annual Budget/Medium Term Plan (MTP) process and the ongoing Risk and Capital assessments.

The Budget/MTP contains the business plan over a three-year period. This includes business projections on a variety of bases to indicate different economic assumptions. The business plan combines the business and financial strategy. Also included within the Budget/MTP are stress testing techniques and scenario analysis to provide details of how the Company would be impacted by particular changes in macro and micro economic factors, in addition to non-financial factors impeding the fulfilment of Aegon's strategic objectives. The outcomes of the process inform management, enabling them to determine appropriate mitigating actions and define capital and solvency needs.

A Risk and Capital assessment takes into account the proposed strategy and the acceptable level of the associated risks in pursuit of that strategy. Aegon's risk management process and ORSA cover Aegon's risk universe and also give explicit attention to strategic risks, emerging risks and top risk themes.

The ORSA process is iterative and subject to on-going monitoring. The Budget/MTP and ORSA Steering Committee is responsible for the direction, integration of the business strategy and key decision making in respect of the Budget/MTP and ORSA process. The committee oversees the delivery of the Budget/MTP and ORSA and acts as an escalation point for decisions, risks or issues up to the Management Board. It approves all key deliverables throughout the process. The ORSA process is also used for decision making and responding to changes impacting the business.

Use of the ORSA process relates to actions recommended to the Board arising from the ORSA process.

All of the above is evidenced and documented in Aegon's annual ORSA report. More frequent, quarterly reports are produced internally that document the ongoing Risk and Capital assessments of the ORSA process throughout the year. The outcomes of these reports contribute to the annual ORSA report.

The ORSA report is targeted primarily at the Management Board, Executive Board and Group Risk & Capital Committee as key approval bodies. However, the concepts of ORSA are business wide and all senior management engage with the ORSA process in developing business plans that are aligned with Aegon's overall risk and capital strategy. The Executive Board approves and signs off the annual (and any non-regular) ORSA reports.

B.3.2.2 ORSA frequency

The ORSA is performed annually or more often if deemed necessary. A non-regular ORSA does not necessarily require all sections to be re-produced. Management is responsible for the monitoring of the triggers that may initiate the execution of a non-regular ORSA. The Executive Board is responsible for the execution of a non-regular Aegon Group ORSA.

B.3.2.3 Aegon's own solvency needs

An important element of Aegon's ERM framework is establishing the organization's tolerance for risk in order to assist management in carrying out Aegon's strategy within the limits of available resources. To achieve this, Aegon has defined the following key areas in which risk tolerance plays an important role:

Financial strength;

Continuity;

Culture; and

Risk balance.

The **financial strength** statements are integrated within the Capital Management Policy. The primary measure of group capital adequacy that Aegon manages is Aegon Group's SCR ratio. Aegon's Capital Management Policy sets the targeted capitalization level for Aegon Group. Capital management zones are set to provide adequate protection against a breach of the set risk tolerance. The use of the capital management zones is instrumental to trigger appropriate and timely adjustments to capital plans and appropriate and timely management actions with increasing intensity if necessary. For more details about the Capital Management Policy and the capital management zones, please refer to section E. Capital management.

Capitalization is also featured in the **continuity** related risk tolerance statements. Aegon has identified extreme event scenarios for testing the continuity of the Company given its current business and risk profile. The ability to meet the obligations to policyholders under the identified extreme event scenarios is measured by testing whether regulatory minimum capital requirements continue to be met. For more information about the Solvency Capital Requirement and Minimum Capital Requirement, reference is made to section E.2 Solvency capital requirement. A breach of any of the continuity risk tolerances needs to be followed by a review of business plans and identification of management actions, in order to successfully pass the subsequent risk tolerance testing.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

39 System of governance **Internal control system**

Capitalization is not an explicit factor in the risk **culture** tolerance statements, which link risk management to the organization culture and sets tolerances for operational risk events, ensuring business integrity and operational resilience.

Capitalization is a relevant factor in the **risk balance** related risk tolerance statements. The targeted risk balance or risk profile is the outcome of Aegon's risk strategy setting process. This process assesses by risk type whether the risk serves a customer need, whether Aegon has the competence to manage the risk, if Aegon has a preference for the risk and if the risk fits within Aegon's risk taking capacity. The risk taking capacity is determined by the available capital. Ultimately, the risk taking capacity is allocated to specific risks through risk limits in line with the Company's risk preferences.

B.4 Internal control system

Aegon has developed an internal control system that serves to facilitate its compliance with applicable laws, regulation and administrative processes and the effectiveness and efficiency of operations in view of its objectives, as well as the availability and reliability of financial and non-financial information. The overall internal control system ensures appropriate control activities for key processes and the documentation and reporting of administrative and accounting information. The internal control system is embedded through key policies and frameworks such as the ERM Framework, the Model Validation Framework and the OCRM Framework and is considered wider than the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, (COSO, 2013) on which criteria the internal control system is based. The internal control system has been developed in accordance with regulations that Aegon must comply with globally (i.e. Sarbanes Oxley 404 and Solvency II). Aegon's control activities aim to assure an adequate level of internal control over Aegon's objectives and in particular compliance, operational and financial reporting objectives including the production of Solvency II and IFRS numbers. The objective is to provide assurance regarding the reliability, accuracy, completeness, timeliness and quality of internal and external (regulatory) reporting, the safeguarding of assets and compliance with internal and external requirements.

As part of the internal control system, a financial reporting internal control framework has been established supported by Aegon's Group Sarbanes Oxley methodology. For more information about Aegon's internal control framework, reference is made to section B.4.2 OCRM risk framework. Furthermore, as required by Solvency II, Aegon's internal control framework includes a compliance function, which is described in section B.4.3.

The internal audit function and actuarial function are described in section B.5 and B.6 respectively.

B.4.1 General principles of Aegon's internal control system

The general principles of Aegon's internal control system apply to all functional areas or departments. These principles are:

All employees must comply with the Code of Conduct. The Code of Conduct states that all employees will conduct their work in an ethical manner;

If employees become aware or observe fraud, questionable accounting practices, or other unethical behavior, they should report it to a member of management, human resources or to their local ethics hotline;

Employees are instructed regarding the sensitivity and confidentiality of the Company and policyholder information or client information;

All departments should develop a system of internal control to ensure that the assets and records of the Company are adequately protected from loss, theft, alteration or unauthorized access;

All departments embed and maintain adequate segregation of duties. Where adequate segregation cannot be achieved, other risk mitigating controls are designed, implemented, effectively performed and results documented;

All departments have business continuity plans in place that are periodically updated; and

Records of the Company are maintained in compliance with record retention policies and local regulatory requirements.

B.4.2 OCRM risk framework

A key element of Aegon's internal control system is to facilitate action planning and embed continuous improvement regarding the internal control environment throughout the organization. From an OCRM perspective and given the different nature of operational risks vis-à-vis financial and underwriting risks, the OCRM risk framework is considered integral part of the internal control system to facilitate its compliance with applicable laws, regulation and administrative processes and the effectiveness and efficiency of operations in view of its objectives. The ORCM framework is part of the more comprehensive ERM Framework, which is not limited to operational risk. From that perspective the Operational & Conduct Risk Management (OCRM) function applies building blocks of the ERM framework. The figure below provides a graphical illustration of this OCRM risk framework.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents40 System of governance **Internal control system****Aegon s OCRM Risk Framework**

Process Mapping encompasses the identification of significant processes and their owners. Process owners are responsible for the effective execution of risk management activities within their processes.

A Risk (Self) Assessment (RSA) is achieved through periodic risk control self-assessments (RCSAs). These are performed to understand business objectives, identify operational risks for realizing these objectives, assess the adequacy of the risk mitigating factors or controls in place given the identified risks, and assess the impact and likelihood of losses (including financial reporting errors). These assessments contribute to the understanding of all known risks for which key control activities can be determined to (partly) mitigate those risks. This risk identification is supported by a value chain contributing to the completeness of the risk assessment and the identification of handover points.

Scenario Analysis (SA) is the process of developing scenarios along structured dimensions, using opinions from subject matter experts and business leaders, and deriving reasoned risk assessment of the severity and frequency, thereby enabling business improvements, enhanced risk management and improved measurement of required operational risk capital.

Risk Monitoring is accomplished through the effective design and implementation of Key Risk Indicators (KRIs) or other monitoring mechanisms that inform about current risk and control profiles. Relative to financial reporting, management actively monitors processes and key controls to ensure that they are designed and operating effectively. Management s active monitoring of key controls, KRIs, or other measurements along with identifying and implementing related action plans reflects the proactive nature of risk management efforts. Appropriate metrics or measurements should be identified to the extent that they are indicators of potential risk or control deficiencies.

Risk Validation is obtained through the identification, collection and analysis of operational loss events, or through validating the effectiveness of controls that mitigate risks. The operational loss events are collected and analyzed in a centralized loss database (LDB). To stimulate learning within and as an organization, root causes of operational loss events or control deficiencies are analyzed and shared. By sharing the root causes, Aegon facilitates more effective risk management and continuous process improvement. The number of loss events or control deficiencies confirm that the risk assessments are effective, and that the KRIs are effective to monitor or predict risk.

Risk Response & Action Plans follow the risk identification, monitoring and validation process. Risk response is the decision-making process to accept, control, transfer or avoid risks. Action plans are developed and activities performed to achieve the desired risk mitigation. Action plans arise from losses incurred, risk assessments performed, key risk indicators identified and control testing results.

Risk Reporting covers all aspects of operational risk management, validating and demonstrating the importance of risk management to Aegon s operations. Reporting of (key) risks, loss events, control weaknesses and trends in KRIs provides a mechanism for taking appropriate and adequate actions on a timely basis, enhancing the decision making process and providing feedback that gauges the success for the OCRM program as a whole.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

41 System of governance **Internal control system**

B.4.3 Compliance function

B.4.3.1 Introduction

For Aegon, compliance is based on Integrity risk which is defined as the threat to the reputation of, or the current or future threat to the capital or the results of Aegon due to insufficient compliance with the rules that are in force under or pursuant to the law and regulations, internal company rules and policies governing its operations and established good business practices.

The business is supported by the Regulatory Compliance (RC) function at Aegon Group and business unit-level with:

Identifying new and revised regulations, e.g. establishing compliance universe;

Identifying and assessing integrity risks stemming from these regulations;

Advising how to comply with new changes and existing regulations, e.g. risk mitigation;

Compliance policy setting and implementation, e.g. risk mitigation;

Investigating compliance breaches, e.g. incident management; and

Periodic and ad hoc reporting on regulatory developments, and compliance and integrity incidents.

B.4.3.2 Aegon Group Compliance function

At Aegon Group level, the key function holder for Compliance assurance with Solvency II requirements is the Head of Operational and Conduct Risk. This structure is mirrored as much as possible locally, in particular in Solvency II entities. The regulatory compliance function supports the Solvency II Compliance Function holder in meeting its obligations.

B.4.3.3 Objective of the regulatory compliance function

The objective of the regulatory compliance function is to support the Executive Board, Management Board and business unit's Management Boards in ensuring that Aegon acts in line with relevant legal, regulatory requirements and Aegon Group risk tolerance. In this role, the regulatory compliance function will promote and foster compliance with laws and regulations. Conducted effectively, strong regulatory compliance enables the organization to act with integrity, and provide optimal service delivery to Aegon's clients.

B.4.3.4 Activities

The regulatory compliance function is responsible for the identification and assessment of regulatory developments and associated integrity risks, the management and implementation of programs to respond to regulatory developments (risk mitigation) and first line monitoring, and reporting of compliance with existing regulations and internal policies to ensure that Aegon operates within its integrity risk tolerance.

The following thematic regulatory areas fall within the scope of the regulatory compliance function:

Market Conduct Regulation (Treating Customers Fairly);

Prudential Financial Regulation (Solvency II, et al.);

Organizational Conduct Regulation (Market Abuse, Privacy, Anti-Trust and Competition);

Personal Conduct Regulation (Conflict of Interest, Fitness & Propriety); Personal Conduct Regulation (Conflict of Interest, Fitness & Propriety);

Customer Conduct Regulation (Sanctions); and

Financial Crime Regulation (Anti-Money Laundering, Counter Terrorist Financing, Fraud, Anti-Bribery and Corruption).

B.4.3.5 Role of Management

Regulatory compliance is a global function within Aegon. The Executive Board, together with the Management Board, is responsible for the effectiveness of the Aegon organization as a whole, at all times. They are responsible for the establishment of an effective regulatory compliance function that meets the requirements set out in the function's Charter.

B.4.3.6 Responsibilities and roles of the regulatory compliance function

Regulatory compliance acts as a gatekeeper within the organization to identify regulatory requirements, and, working with business unit management, ensure these regulations are complied with. The regulatory compliance function operates in accordance with Aegon policies and procedures specific to the function. In addition, the function is designed to ensure compliance with applicable regulatory and legal requirements applicable to the business, supported by the relevant external professional or good market practice standards.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

42 System of governance **Internal control system**

In realizing the objective of the regulatory compliance function, the following aspects are important:

Advise the Executive Board and Management Board on:

The (potential) impact of regulatory developments on Aegon;

The development of a regulatory compliance framework that encompasses the relevant regulatory requirements and risks pertaining to Aegon and serves as a standard for all entities of Aegon; and

The status of Aegon's compliance with laws, regulations and appropriate Aegon Group's policies.

Support and facilitate the Executive Board, Management Board, business unit Management Boards and the business in the implementation, maintenance and embedding of the regulatory compliance framework.

Monitor on behalf of the Executive Board, Management Board and business unit Management Boards (in cooperation with local teams) the implementation and effectiveness of the regulatory compliance framework.

B.4.3.7 Responsibilities and role of the OCRM function

The OCRM function is the Solvency II key function holder for Compliance, executes its duties objectively and independently in all parts of Aegon. The OCRM function operates in accordance with law and regulations, Aegon policies and procedures supported by relevant external professional or good/market practices standards.

In realizing the objective of the OCRM function, the following roles and objectives (including certain compliance-related objectives) which are set out in the OCRM function charter are important:

Advise:

Keep well informed of good practices, regulatory and industry standards and trends in the fields of operational & conduct risk management, and determine relevancy and the impact on Aegon; and

Advise on the development of the Operational & Conduct Risk framework, and the development of improvements and new initiatives that encompasses the relevant, material risks pertaining to the Aegon organization and serves as a standard for all business units within Aegon.

Support and facilitate:

Provide challenge and oversight of the regulatory compliance framework, monitoring the effectiveness of implementation on all elements (including methodology, policies, programs) in managing regulatory risks, and report to the Management Board, the Executive Board and senior management;

Maintain and support the implementation and embedding of an appropriate operational & conduct risk strategy and framework, including methodologies, risk & internal control systems, (Aegon Group) policies, guidelines and programs, and provide expertise where needed;

Support identification and assessment of material risks by facilitating Risk Control Self-Assessment sessions where required and not already conducted by business units' OCRM functions, both on a strategic level and an operational level, reviewing and challenging business strategy and business developments in relation to operational, conduct and regulatory risks;

Support assessment of (aggregated) risk exposures and management of risks (by identifying mitigating measures such as key controls as performed by the business);

Lead and support the sharing of best practice and key risk information across Aegon;

Implement, maintain and embed an appropriate Operational Risk Capital (ORC) model and coordinate the global ORC process including scenario analysis;

Develop and maintain a curriculum to educate all staff, enhance awareness and lead training regarding operational and conduct risk management-related responsibilities and accountabilities;

Ensure pro-active and effective communication with regulators, including but not limited to the Dutch Central Bank, on the area of Operational & Conduct Risk Management supported by the relevant regulatory compliance function; and

Lead the development and reporting of appropriate OCRM information across Aegon.

Challenge:

Report to the Management Board and senior management on the actual operational and conduct risk profile compared with the risk tolerance levels. This includes monitoring of the effectiveness of the risk management and internal control framework related to operational & conduct risks, and of the effectiveness of the performance management and remuneration processes;

Detect potential violations or deficiencies in compliance with Aegon's OCRM framework, investigate incidents, and help senior management to address these issues and develop remediation plans as appropriate;

Ensure that serious incidents are reported to the external regulator adequately and in a timely manner; and

Provide oversight and reporting to the Management Board and senior management on the effectiveness of remediation measures including action plan monitoring.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

43 System of governance **Internal Audit function**

B.5 Internal Audit function

B.5.1 Internal Audit function

Aegon's Internal Audit function (Internal Audit) assists the Executive Board, the Supervisory Board and Senior Management in protecting Aegon's assets, reputation, and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes. The Internal Audit function is the third line of defense.

The Aegon Group Chief Audit Executive reports functionally and administratively to Aegon's Group Chief Executive Officer and the Audit Committee of the Supervisory Board. Internal Audit's main tasks and responsibilities are to:

Prepare and execute a risk based audit plan that is approved (semi-)annually by the Risk and Audit Committees of the business units, the Audit Committee of the Supervisory Board and the Executive Board;

Identify, and agree with management, opportunities to improve the internal control framework, risk management and governance processes, and verify that such improvements are implemented effectively within a predetermined period of time;

Occasionally assist with the following activities: investigating significant suspected fraudulent activities, performing special reviews and providing consulting services;

Periodically issue reports to management and the Audit Committee, summarizing the progress and results with respect to the annual audit plan; and

Perform audits on the functioning of the first and second line of defense.

B.5.2 Independence and objectivity of the Internal Audit function

Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditors International Standards for the Professional Practices of Internal Audit, in addition to Aegon policies and procedures. Internal Audit's policies also align with the local professional auditing standards.

Internal Audit avoids any conflict of interest and accesses the knowledge necessary to perform audit activities in specific areas of expertise. If required, temporary resourcing constraints can be alleviated by outsourcing of Internal Audit activities.

The business units' Chief Audit Executives verify as to whether any resource not employed by Internal Audit departments (for example contractors or other externally hired resources) possesses the necessary knowledge, skills

and other competencies to execute the duties of Internal Audit. These resources are appropriately assigned to audit teams or otherwise assist the internal auditors, and comply with the principles of the Aegon Internal Audit Charter.

Resources employed within the Internal Audit function do not execute any operational duties for Aegon and will not review a business area or function in which they have had recent management or operational responsibility or are otherwise conflicted.

To ensure the independence of the auditors and effective governance, the business units' Chief Audit Executives have a reporting line to the Aegon Group Chief Audit Executive, as well as to their respective business units' Risk and Audit Committee and business units' Chief Executive Officer.

B.6 Actuarial function

Global functions

The Executive Board has defined the Global Chief Actuary function (first line of defense in Finance) and the Underwriting Risk Management (URM) function (second line of defense in Risk). Both functions are present at Aegon Group level and at business unit level. Aegon has decided to allocate both Global functions to one person at Group level.

Chief Actuary function is to advise, to support, to facilitate, to monitor and to challenge on matters relating to insurance liabilities, pricing and product development, reinsurance use, underwriting practices, required capital assessment and maintenance of a strong risk culture.

URM function is to monitor and to challenge on matters relating to actuarial risk analysis, risk policy and limit framework setting, risk management and compliance, assessment of required capital methodology and modelling, in addition to related risk controls. Furthermore, the role of the Head of URM is to set frameworks in which the Chief Actuary operates, and to perform independent peer reviews of the Actuarial Function reports.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

44 System of governance **Outsourcing**

The Chief Actuary function is a sub-function of the Finance function falling under the responsibility of the CFO. The URM function is a sub-function of the Risk Management function falling under the responsibility of the CRO.

Objectives of the functions

The objectives of the actuarial functions consist of end-to-end accountability for the adequacy and reliability of reported technical provisions, including risk margins by ensuring a proper control framework, accurate reporting and appropriate data, modeling, methodology and assumptions. A further objective that it has is to provide senior management with actuarial analysis on: quarterly changes in technical provisions, product pricing, actual and expected assumption experience including expert judgments, and in general the impact of strategic or management decisions on liabilities and actuarial risks.

In addition, the actuarial functions objectives contain framework/policy setting, monitoring compliance with respect to actuarial risks and supporting management in the execution of an effective underwriting policy, also covering the pricing and product development, by providing expert opinions.

Finally, the actuarial function aims to ensure compliance with regulatory actuarial (reporting) requirements, including local actuarial sign-off on the adequacy and reliability of technical provisions (also referred to as reserves).

The Chief Actuary function reports periodically about the adequacy and reliability of the technical provisions (AFR), actuarial assumption Assumed/Expected results and analysis, analysis of annual actuarial financials (source of earnings), pricing developments, reinsurance use, underwriting practices, actuarial content in regulatory reports (e.g. SFCR and ORSA), and required capital methodology for actuarial risks. The Chief Actuary function is responsible for the Solvency II Actuarial Function report except in the case of operating insurance entities in the Netherlands, where the regulatory framework requires a second line Actuarial Function Holder to provide and sign off the Solvency II Actuarial Function report.

Reporting

The URM function reports periodically about peer reviews of actuarial assumptions and Actuarial Function reports (except for insurance companies operating in the Netherlands), actuarial/underwriting risks versus risk limits, compliance with pricing & product development policies, reinsurance counterparty risk exposure and policy compliance, actuarial risk framework developments, and relevant risk controls.

B.7 Outsourcing

B.7.1 External outsourcing arrangements

External outsourcing arrangements are arrangements of any form between Aegon and a supplier, in which the supplier performs a function or an activity, whether directly or by sub-outsourcing, which could otherwise be performed by the Company itself.

Outsourcing risk is considered material under Solvency II and by Aegon when a function or activity is a critical or important function or activity on the basis of whether this function or activity is essential to the operation of the

undertaking as it would be unable to deliver its services to policyholders without the function or activity. Aegon defines the materiality of the outsourcing party based on a vendor classification matrix, which is included in Aegon's Outsourcing & Supplier Risk Policy .

Outsourcing arrangements and material suppliers have an impact on operational risk as a result of potential material changes to and reduced control over the related people, processes and systems. To manage outsourcing arrangements, Aegon has an Outsourcing & Supplier Risk Policy. The aim of this policy and other procurement related documentation is to ensure that all arrangements entered into by Aegon are subject to appropriate assessment and approval. In case arrangements are identified as outsourcing arrangements that can result in a material risk (i.e. risk classification severe and significant) due diligence, approval and on-going monitoring is performed in line with the policy. All material risks arising from these activities are appropriately managed to ensure that Aegon is able to meet both its financial and service obligations.

B.7.2 Intra-group outsourcing arrangements

Aegon has material intra-group outsourcing agreements. At business unit level, Aegon makes use of several ancillary service companies. These companies perform a range of services for Aegon entities. These ancillary service companies are fully owned by Aegon and in most cases (hierarchical) managed by the local business units. Aegon's insurance entities have outsourced their asset management to Aegon Asset Management. Aegon Asset Management manages investments for Aegon's insurance companies based on investment mandates.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

45 System of governance **Any other information**

The Outsourcing & Supplier Risk Policy also covers the intra-group outsourcing. For intra-group outsourcing (i.e. the supplier is a legal entity fully owned by Aegon) the examination of the vendor may be less detailed, provided that the business unit has greater familiarity with the vendor, and if the business unit has sufficient control over, or can influence the actions of, the vendor. However, for intra-group outsourcing agreements, Aegon requires a written agreement, including a service level agreement (SLA) (if applicable), stipulating duties and responsibilities of both parties.

B.7.3 Material intra-group outsourcing arrangements

The material intra-group outsourcing arrangements at Aegon Group level are:

An intra-group agreement between Transamerica Life Insurance Company and Aegon N.V., signed on September 1, 2010. The different services provided by Transamerica Life Insurance Company relate to information and technology services mutually agreed upon, which may be modified from time to time;

The business unit Aegon Asset Management manages a large part of the assets of Aegon's insurance companies, including Transamerica. The contracting entities Aegon Investment Management B.V. (AIM), Aegon USA Investment Management, LLC (AUIM) and Aegon USA Realty Advisors, LLC (AURA) are part of this Unit; and

Aegon Derivatives. The purpose of Aegon Derivatives is to facilitate the use of derivatives by Aegon Group companies by among other things: mitigating counterparty risk related to the use of derivatives through netting and collateral management, and monitoring regulatory and legal developments. Pursuant to mandate agreements with certain Aegon Group entities, Aegon Derivatives enters into derivatives transactions with third parties. Aegon Derivatives does so in its own name, but for the account and risk of internal clients.

B.8 Any other information

B.8.1 Assessment of adequacy

Corporate governance at Aegon is determined by the Management Board (including the Executive Board) and Supervisory Board of Aegon Group. Regulations and (inter)national guidelines are taken into account and the roles and responsibilities of the Management Board and Supervisory Board are reflected in management charters. Those management charters are reviewed on a regular basis and revisions will follow required approval processes.

In addition, all Aegon employees are committed to the Code of Conduct, which consists of Aegon's purpose, core values, business principles and rules of conduct. The Code of Conduct also addresses governance aspects and reflects compliancy with laws and regulations, information sharing and the identification and management of risks in a prudent way (for instance internal guidelines and policies).

Aegon's risk management system is an important part of Aegon's system of governance. Both its risk governance framework, as described in section B.3.1.2, and its ERM framework, as described in section B.3.1.1, are designed to adequately manage risks according to the nature, scale and complexity of the risks inherent in Aegon's business. Where appropriate, the risk governance structure is updated to meet changing demands.

As mentioned in section B.3.1.2, the risk committee structure was re-assessed and restructured in 2016, and the relevant charters were updated. Escalation thresholds for decision making are linked to the scale and impact of the risks to the organization. Risk tolerances, policies, methodologies and models are regularly reviewed to ensure they remain appropriate and up-to-date. Aegon's Solvency II PIM is fully integrated into Aegon's risk management system and governance structure, and the model validation function regularly assesses the Solvency II PIM and underlying components. The model integrity is assessed, including performance of the model and ongoing appropriateness of its specifications.

The conclusion of the latest assessment was that the Solvency II PIM, including underlying internal models, standard formula shocks, and aggregation methodology, is considered fit for purpose for use within SCR calculations. Aegon's risk management is continuously being improved to ensure capabilities remain at a high level in changing conditions. In this context, ERM maturity assessments are conducted throughout the group to inform the business unit as to where they are on the ERM maturity ladder, and more specifically as to whether the actual maturity levels are consistent with target maturity levels as defined by management based on the size and complexity of the business unit and the related nature, scale and complexity of risks. The assessment results are also used as input for identifying and prioritizing ERM areas for further development in the business units.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

46 Risk profile **General**

C. Risk profile

General

This section provides general information regarding Aegon's risk profile.

Introduction to Aegon's risk profile

As an insurance group, Aegon accepts and manages risk for the benefit of its customers and other stakeholders. The pre-diversified capital requirement, categorized as prescribed by EIOPA, are as follows:

As a result, the Company is exposed to a range of underwriting, market, credit, liquidity and operational risks. (Spread, migration and default risk are for the purpose of this chapter categorized within credit risk). The last category includes capital requirements for entities under Deduction & Aggregation on a (provisional) equivalence or on Solvency II basis; where US Life insurance entities, Bermuda and Japan are based on (provisionally) equivalence and China, India and Turkey are on Solvency II basis. In addition, the capital requirements of Other Financial Sector entities (excluding Aegon Bank) are also part of this category. Aegon's internal categorization is different and represents better the risks and how Aegon manages its risks. Reference is made to section E.2.1 Solvency capital requirement for more detail about the categorization.

When managing its day-to-day risk exposures, Aegon includes the D&A businesses in its analysis and mitigation of underwriting risk, market risk, credit risk, liquidity risk and operational risk. Aegon's risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way that is aligned with the Company's strategy. Risk management and controls systems are designed to be applied consistently across the Group.

Aegon's risk strategy provides direction for the targeted Aegon risk profile while supporting Aegon's business strategy. The targeted risk profile is determined by customer needs, Aegon's competence to manage the risk, the preference of Aegon for the risk, and whether there is sufficient capacity to take the risk. Aegon currently targets an equal balance between financial market and credit risks and underwriting risks. The targeted risk profile is set at Aegon Group level, and developed in more detail within the subsidiaries where insurance business is written.

To manage its risk exposure, Aegon has risk policies in place. Many of these policies are group-wide while others are adapted to the situation of local businesses. As mentioned in B.3.1.2 Risk governance framework, Group level policies limit the Group's exposure to major risks such as equity, interest rates, credit, and currency. The limits in these policies in aggregate remain within the Group's overall tolerance for risk and the Group's financial resources.

Factors influencing Aegon's risk preferences include expected returns, alignment between Aegon, counterparty and customer interests, the existing risk exposures and other risk characteristics such as diversification, the severity of the risk in an extreme market event and, the speed at which risk can materialize in Aegon's capital position, liquidity position and net income.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents**47 Risk profile Prudent person principle**

In addition to the targeted risk profile, risk tolerances and limits are established to ensure that Aegon maintains, at all times, a solvency and liquidity position such that no plausible scenario would cause the Company to default on its obligations to policyholders. Aegon has established a number of risk criteria and tolerances as part of its risk strategy, including financial strength, continuity, culture and risk balance.

Aegon uses sophisticated techniques to measure and mitigate risks associated with options and guarantees that are complex and related to both underwriting and market risk. Risk mitigation techniques that are used to reduce risk can also result in the introduction of new smaller risks. For example, using derivatives to hedge market risk can significantly reduce market risk but also introduce credit or liquidity risk. Complex or dynamic hedges also introduce new operational risks. Overall the impact is a significant reduction in risk retained despite the small increase to exposure in terms of these risk types.

Sensitivity and scenario analysis is utilized to test the overall financial strength of the business and the exposure to specified risks. Sensitivities and scenario analysis is a core part of the risk framework and enable the business to measure, monitor and manage risk exposures at any time. For EEA legal entities the method and assumptions used rely primarily on the Partial Internal Model where applicable, and Standard Formula for the rest. For non-EEA legal entities the methods and assumptions are based on local regulatory requirements. The scenarios and assumptions used are reviewed regularly and updated as necessary. Aegon assumes within the sensitivity analysis 100% recoverability of possible DTA on own funds in jurisdictions subject to Solvency II. Jurisdictions deemed provisionally equivalent apply local solvency rules when determining DTA admissibility which may result in less than 100% recoverability. Assumptions underlying Aegon's factor for the loss absorbing capacity of deferred taxes jurisdictions subject to Solvency II will be reviewed following new guidance from the Dutch Central Bank issued in February 2017. At December 31, 2016, the factor of LAC-DT is assumed 75% for Aegon the Netherlands.

The sections C.1 Underwriting risk; C.2 Market risk; C.3 Credit risk; C.4 Liquidity risk; C.5 Operational risk and C.6 Other material risk include qualitative and quantitative information with respect to specific risks.

Applicable risk mitigation techniques are described in each section. Furthermore, the aforementioned sections include a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis. The sensitivities do not, in general, reflect what the Solvency ratio for the period would have been if risk variables had been different. This is because the analysis is based on the existing exposures on the reporting date, rather than on those that actually occurred during the year. The results of the sensitivities are also not intended to be an accurate prediction of Aegon's Solvency ratio.

In addition, it does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations because effects do not tend to be linear. No risk management process can clearly predict future results.

Prudent person principle

The prudent person principle has been embedded into Aegon's system of governance, and is applicable for Underwriting risk, Market risk and Credit risk.

In accordance with the Investment and Counterparty Risk policy, the business unit is required to explain how the Solvency II prudent person principle requirements are met.

The investment mandates section of the Standard of Practice paper ensures that the prudent person principles are satisfied. The risks on the investment side are reported in Risk Reporting and more detailed in Reporting done by Aegon Asset Management. There are numerous risk policies in place to ensure that the assets held are appropriate to the nature of the liabilities without taking on excessive risks:

The Investment and Counterparty Risk Policy establishes the exposure limit for Investment and Counterparty Risk and prudent person principle requirements;

The Currency Risk Policy limits the amount of currency risk allowed;

Concentration 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;

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;

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents**48 Risk profile Off-balance positions and special purpose vehicles**

The Securities Lending and Repo Policy ensures a consistent standard for Securities Lending and Repurchase (Repo) programs within the Aegon Group. This Policy sets out the minimum required processes and documentation standards that must be in place for any unit to operate in these instruments; and

The Reinsurance Use Policy establishes the process with which reinsurance use is conducted at Aegon in order to ensure a consistent high standard of reinsurance use across the Group, to ensure proper internal controls are in place around risks arising from reinsurance wherever material (e.g. counterparty risk and basis risk), and to ensure globally consistent information on Aegon's reinsurance treaties is available.

Off-balance positions and special purpose vehicles

This section provides information regarding Aegon's risk exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles. The off-balance sheet positions at the end of 2016, which consist of other commitments and contingencies and contractual obligations, are disclosed including a description of the risk exposure arising from them. Aegon has no exposure to special purpose vehicles.

Other commitments and contingencies

As of December 31, 2016, guarantees amounted to EUR 682 million and include those guarantees associated with the sale of investments in low-income housing tax credit partnerships in the United States. Standby letters of credit amounts reflected above are the liquidity commitment notional amounts. In addition to the guarantees shown in the table, guarantees have been given for fulfillment of contractual obligations such as investment mandates related to investment funds.

Other commitments and contingencies

Amounts in EUR millions	2016
Guarantees	682
Standby letters of credit	29
Share of contingent liabilities incurred in relation to interests in joint ventures	40
Other guarantees	18
Other commitments and contingent liabilities	12

Contractual obligations

Transamerica Life Insurance Company, an indirect US life insurance subsidiary of Aegon N.V. has a net worth maintenance agreement with its subsidiary Transamerica Life (Bermuda) Ltd. to provide capital sufficient for Transamerica Life (Bermuda) Ltd. to maintain a S&P AA financial strength rating and to comply with the requirements of the countries in which its branches are located.

Transamerica Corporation, a wholly-owned subsidiary of Aegon N.V., has provided a parental guarantee to TLIC Riverwood Reinsurance, Inc. (TRRI), an affiliated captive reinsurer, for the cash payments required fulfilling reinsurance payments to Transamerica Life Insurance Company, to the extent that the assets in the captive (TRRI) are

not sufficient to cover reinsurance obligations. As of December 31, 2016, this amounted to EUR 2,002 million.

Aegon N.V. entered in 2016 into a contingent capital letter for an amount of JPY 6 billion (EUR 49 million) to support its joint venture Aegon Sony Life Insurance Company in meeting local statutory requirements.

Aegon N.V. has guaranteed and is severally liable for the following:

Due and punctual payment of payables due under letter of credit agreements applied for by Aegon N.V. as co-applicant with its captive insurance companies that are subsidiaries of Transamerica Corporation and Commonwealth General Corporation. On December 31, 2016, the letter of credit arrangements utilized by captives to provide collateral to affiliates amounted to EUR 3,720 million; as of that date no amounts had been drawn, or were due, under these facilities. Other letter of credit arrangements for subsidiaries amounted to EUR 104 million; as of that date no amounts had been drawn, or were due, under these facilities;

Due and punctual payment of payables due under letter of credit agreements or guarantees provided for subsidiaries of Transamerica Corporation on December 31, 2016, amounted to EUR 3,563 million. As of that date, no amounts had been drawn, or were due, under letter of credit facilities. The guarantees partly related to debt amounted to EUR 1,505 million;

Due and punctual payment of payables by the consolidated group companies Transamerica Corporation, Aegon Funding Company LLC and Commonwealth General Corporation with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs amounted to EUR 633 million; and

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

49 Risk profile **Underwriting risk**

Due and punctual payment of any amounts owed to third parties by the consolidated group company Aegon Derivatives N.V. in connection with derivative transactions. Aegon Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements, including collateral support annex agreements, have been agreed. Net (credit) exposure on derivative transactions with these counterparties was therefore limited as of December 31, 2016.

C.1 Underwriting risk

C.1.1 Underwriting risk description

Underwriting risk, sometimes referred to as insurance risk, arises from deviations in product pricing assumptions. These are typically actuarial assumptions that cover policyholder behavior and claims. Underwriting risk is the result of both the inaccuracies in projecting liability cash flows over several future time periods, as well as fluctuations in the incidence of claims. The Underwriting risk component of the pre-diversified SCR is as follows:

Underwriting risk can be broken down into five distinct risk types: mortality risk, morbidity risk, policyholder behavior risk, property & casualty risk and expense risk. These five risk types are relevant across many of Aegon's businesses and are detailed hereafter.

Mortality/longevity risk

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

From Aegon's perspective, mortality risk translates into increased policyholder benefits.

In Aegon's life insurance business (i.e. term assurance and other death protection products), mortality risk is the risk that mortality is higher than expected; and

In Aegon's immediate annuity business (i.e. annuity portfolios, survivorship pensions) and Long Term Care (providing living accommodation for people with a chronic illness or disability), mortality risk is the risk that mortality is lower than expected. This is referred to as longevity risk, as Aegon is exposed to an increase in life expectancy.

Material changes over the reporting period

The sale of the majority of the annuity business within Scottish Equitable plc in 2016 reduced the exposure to Longevity risk arising from this business.

Morbidity risk

Morbidity risk arises from economic losses due to morbidity levels deviating from expectation. These variations can be driven by changes in policyholder illness, disability and disease rates. Similar to mortality risk, policyholders are typically grouped into different classes that are expected to have the same morbidity. Assumptions are then developed for each class.

Morbidity risk is inherent to income protection plans (disability insurance), health insurance, and critical illness protection products. For these products, increased incidence of illness increases the likelihood of policyholder claims. For many products, such as disability insurance, both the increased frequency and severity of claims are significant sources of exposure.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

50 Risk profile **Underwriting risk**

Policyholder behavior risk

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

Property & Casualty risk

Property & Casualty risk (P&C) covers the risk that the parameters used in setting reserves or premiums for property and casualty business are inaccurate. Due to the different nature of setting reserves for property & casualty business it has its own risk type.

In practice, Aegon's overall exposure to P&C-related risk is relatively small. Examples of property & casualty risks within Aegon are:

Motor, which includes automobile property damage and third-party liability coverage;

Commercial property: commercial structures and contents;

Marine, aviation and transport;

Liability: public/third-party liability; and

Homeowners: buildings and contents coverage.

Expense risk

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

Expense inflation risk: this is the risk that expenses inflate at a higher rate than that assumed in the calculation of the technical provisions. This does not cover the risk of general price inflation increases, which would be covered by mismatch risk; and

Expense level risk: this is the risk that there will be unexpected changes in maintenance expenses for in-force business (assuming that the volumes of business are unchanged from best estimate assumptions). This risk therefore corresponds to an increase in the total expenses spread among the same number of policies i.e., the per policy expenses increase. It is effectively the change in the best estimate expense assumption given a 1-in-200 year expense event.

Most expenses Aegon has within their businesses will be subject to expense risk if not contractually defined. These types of expenses include for example: salaries, office space, software licenses and fees to intermediaries.

C.1.2 Underwriting risk assessment

Aegon 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's units also perform experience studies for underwriting risk assumptions, comparing Aegon's experience with industry experience as well as combining Aegon's experience and industry experience based on the depth of the history of each source to Aegon's underwriting assumptions. Where policy charges are flexible in products, Aegon uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

Aegon reviews its actuarial and economic assumptions periodically. In addition, as part of an ongoing commitment to deliver operational excellence, the company reviews and refines its models where necessary.

As part of Aegon's continuous effort to strengthen risk management, the following adjustments were made to the assessment and management of longevity risk, which is one of the most significant underwriting risks:

Achieving a consistent internal best practice for measuring the risk which is built on a One-Year-Value at Risk framework. Consistent measurement of the risk helps Aegon to achieve a level playing field when allocating capital; and

Aegon decided to require more Return on Capital to take on longevity risk in new business pricing. In 2016, this measure has been adopted by Aegon Americas as well, creating a consistent longevity pricing framework, ensuring sufficient pricing margins are added given the uncertainty of future mortality improvements. In addition to the longevity transactions in Aegon the Netherlands which occurred over the last years, Aegon also looked for opportunities to reduce the longevity risk of Aegon UK. On April 11, and May 23, 2016, Aegon announced the divestment of its own annuity portfolio to Rothesay Life and Legal & General respectively.

For other underwriting risks, Aegon manages the risks by regularly reviewing the experience, holding capital to cover the extreme events, monitoring the risk exposures against risk limits (which are set in accordance to the Risk Strategy) and continues to look for risk mitigation opportunities.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

51 Risk profile Underwriting risk

C.1.3 Risk concentration

Within Aegon, the concentration risk in underwriting is managed by the use of retention limits, meaning that it is required to reinsure the risk for policies above a certain exposure level. The retention levels are typically chosen in such a way that for the remaining exposure is not material relative to the size of the balance sheet of the company.

Aegon also monitors on a regular basis underwriting geo-concentration risk. This is the risk that an event causes losses on more than one underwriting exposure. An example of such an event is a terrorist attack on a single building leading to property damage, multiple deaths and severe injuries in the building and surrounding areas.

C.1.4 Risk mitigation

Aegon's risk management and control systems are designed to ensure that risks are managed effectively and efficiently in a way that is aligned with the Company's strategy. Risk management involves, among others, the monitoring of risk exposures and actively maintaining oversight of the Company's overall risk and solvency positions. Underwriting risk is mitigated through various processes:

Underwriting process

Underwriting serves as a key risk management tool to manage the underwriting risk by selecting or controlling the individual applications. The underwriting process determines whether a cover should be provided to a prospective policyholder, whether exclusions or amendments to cover are required, and whether additional rates or standard terms are appropriate. Underwriting process also collects data to be used in the risk management cycle. Underwriting process is conducted by following an Underwriting Manual which includes: the underwriting classes; procedures to ensure the appropriateness, completeness and accuracy of data for use in underwriting process and controls to prevent anti-selection.

Claim process

Claims are the outcome of the risks on an individual case-by-case basis. When a claim is made on a policy, an assessment needs to be made as to whether the terms of the insurance policy have been met such that a claim payment is due. Where this is the case, claims are paid out. Where evidence shows potential non-disclosure of relevant information or fraudulent claims, further investigation is undertaken. Aegon's business units must have a Claims Manual in place that includes among others: how claims are assessed and paid; how relevant regulation is being adhered to; and procedures to follow to identify fraudulent claims and the handling of claim disputes.

Best estimate assumption review process

Aegon's business units must set up and maintain an underwriting assumption catalogue that contains all the underwriting risks that may impact financials of the company. Each risk must be reviewed periodically in those instances in which frequency is based on materiality. Material assumptions must be reviewed at least annually.

Underwriting risk limits

Aegon Risk Strategy sets out risk tolerance limits for each risk type including underwriting risks. These limits define the maximum risk that Aegon is willing to be exposed to. Business units should actively monitor the actual risk exposure (measured by gross required capital) and management should take actions when these limits are breached. In addition to risk tolerance limits, it is common practice to address concentration of risk on one insured life or, for property and casualty business, insured object, using retention limit per life or per insured object. Exposure on a few lives with a much higher net amount at risk than the average in the portfolio can create additional volatility in results. A retention limit reduces the impact of process risk and also increases the stability of the underwriting results.

Using derivatives and reinsurance to hedge existing risk

Furthermore, Aegon also mitigates existing underwriting risk by entering into reinsurance arrangements and longevity index derivatives with external parties. Reinsurance arrangements allow Aegon to fix part of the uncertainty in the mortality/longevity dependent payments and serve to mitigate the mortality/longevity risk. Derivative contracts will pay out when mortality rates have decreased more than initially expected, and therefore serve to hedge Aegon's longevity risk.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents52 Risk profile **Market risk****C.1.5 Risk sensitivity****Longevity sensitivity**

An important underwriting sensitivity Aegon applies internally is a longevity shock of 5%, which implies an additional 1-time reduction in annual mortality rates by 5%. This shock decreases the Solvency II ratio of Aegon Group with 7% points. Lower mortality rates increase the longevity exposed liabilities, especially for Aegon the Netherlands and Aegon UK, the latter mainly via the own pension scheme. The higher liability values decrease own funds, as longevity is only partially hedged, and increase the SCR.

Sensitivities	Scenario	Group
Longevity shock	+5%	(7%)

C.2 Market risk**C.2.1 Market risk description**

As an insurance group, Aegon is exposed to a variety of risks. Aegon's largest exposures are to changes in financial markets (e.g. bond market, equity market, interest rate and currency exchange rate risks, as described below, and credit risk which is described in section C.3 Credit risk). When market prices fall, the value of Aegon's investments is reduced. For certain products, Aegon's insurance liabilities may also increase, as investments held for the benefit of policyholders reduce in value. In addition, the value of future fee income potential reduces. The cost of insurance liabilities are also determined with reference to interest rates and the liabilities associated with long term benefits (such as annuities) increase and decrease as interest rates fall and rise. The Market risk component of the pre-diversified SCR is as follows:

Equity market risk and other investments risk

A decline in equity markets may adversely affect Aegon's profitability and shareholders' equity, sales of savings and investment products, and the amount of assets under management. There is a risk for both Aegon and its customers that the market value of its equity investments declines. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investments in which Aegon bears all or most of the volatility in returns and investment performance risk. The existence of direct equity risk is very limited, as defined by Aegon's Risk policies.

Equity market exposure is also present in policyholders' accounts for insurance and investment contracts (such as variable annuities, unit-linked products and mutual funds) in which funds are invested in equities. Although most of the risk remains with the policyholder, guarantees within certain products may transfer some or all of this risk to Aegon. Lower investment returns also reduce the asset management fee that Aegon earns on the asset balance in these products, and prolonged investment under-performance may cause existing customers to withdraw funds and potential

customers not to grant investment mandates.

Some of Aegon's insurance and investment contract businesses have minimum return or accumulation guarantees, which require Aegon to establish reserves to fund these future guaranteed benefits when equity market returns do not meet or exceed these guarantee levels. Volatile or poor market conditions may also significantly reduce the demand for some of Aegon's savings and investment products, which may lead to lower sales and net income. Deteriorating general economic conditions may again result in significant decreases in the value of Aegon's equity investments.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents**53 Risk profile Market risk****Interest rate risk**

Interest rate volatility or sustained low interest rate levels may adversely affect Aegon's profitability and shareholders equity.

Aegon is exposed to interest rate risk, as both its assets and liabilities are sensitive to movements in long- and short-term interest rates. Aegon is exposed to changes in the volatility of interest rates. In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may and usually do increase. Premiums in flexible premium policies may decrease, as policyholders seek investments with higher perceived returns. This activity may result in cash payments by Aegon requiring the sale of invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates. This may result in realized investment losses.

The sale of the majority of the annuity business within Aegon UK in 2016 reduced the exposure to interest rate risks arising from this business.

Currency risk

Fluctuations in currency exchange rates may affect Aegon's reported results of operations. As an international group, Aegon is subject to foreign currency translation risk. Foreign currency exposure also exists when policies are denominated in currencies other than Aegon's functional currency of the Euro. Currency risk in the investment portfolios backing insurance and investment liabilities are managed using asset liability matching principles. Assets allocated to equity are kept in local currencies to the extent shareholders' equity is required to satisfy regulatory and Aegon's self-imposed capital requirements. Currency exchange rate fluctuations may therefore affect the level of Aegon's consolidated shareholders' equity as a result of translation of the equity of Aegon's subsidiaries into euro, Aegon's reporting currency. Aegon holds the remainder of its capital base (capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of Aegon's business units. This balancing is intended to mitigate currency translation impacts on equity and leverage ratios. Aegon may also hedge the expected dividends from its principal business units that maintain their equity in currencies other than the Euro.

C.2.2 Market risk assessment

On January 1, 2016, Solvency II came into force and Aegon transitioned to the approved partial internal model for Solvency II required capital calculations. This internal model represents the most appropriate reflection of Aegon's risk profile and focuses on the measurement of market risks. The partial internal model used by Aegon can be used to assess market risk exposure and to determine an appropriate level of capital buffer to target. This assessment includes a full attribution analysis that explains any variance to expectations for these risks. A quarterly assessment of the risk against stated risk tolerances is performed through the Risk & Capital Committee. An analysis confirmed the appropriateness of the capital management zones under Aegon's Capital Management Policy for protection against a breach of Aegon's stated 1-in-10 year risk tolerance.

Investment strategies are established based on asset and liability studies. Business units set an objective function and clearly state the constraints that apply. The investment strategy seeks to achieve the objective function while satisfying the constraints.

For third-party business sourced externally, Aegon Asset Management distributes its investment strategies directly to its clients. The wholesale businesses typically sell collective investment vehicles (mutual funds) to customers through wholesale distributors and independent intermediaries. The main asset classes are fixed income and equities, and the funds are usually managed against a benchmark or peer group target.

In line with the Solvency II volatility adjustment (VA) policy, a scenario was included in the assessment to explicitly cover Aegon the Netherlands' exposure to corporate bond spread tightening. This exposure results from the specifics of the Solvency II volatility adjustment and Aegon the Netherlands' investment portfolio. The impact of such a scenario at Group level is relatively small due to diversification between the units.

In addition to the assessment outlined above, Aegon carried out an annual review of the risk strategy and concluded not to increase the Aegon Group risk limits for market risks. Risk exposures remained within these limits throughout 2016.

C.2.3 Risk concentration

Aegon minimizes concentration risks by maintaining a well-diversified portfolio across and within investment categories such as assets class, geographical region and industry sector. Investing in a larger number of separate market risks can also introduce concentration risks; separate exposures could all generate losses at the same time, perhaps due to a shared exposure to another risk factor.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents**54 Risk profile Market risk****Equity market risk**

Equity risk is generally well-diversified, with exposure coming through indirect exposure to policyholder account values and exposure to major market indices through derivatives instruments used for hedging. Any aggregate exposure to specific corporations is managed through the Credit Name Limit Policy, and described in more detail in section C.3.3 Credit risk risk concentration.

Currency risk

As an international group, Aegon is subject to foreign currency translation risk. Aegon's reporting currency is Euro. Aegon Group has a large exposure to the US Dollar to Euro exchange rate through its ownership of equity in Transamerica.

Managing risk concentration

A key part of Aegon's ERM framework is setting risk limits for each risk. Each quarter individual Country Units and the Group calculate actual exposures and compare to the risk limits. Compliance with the limits is expected and any breaches must be dealt with as described in the ERM manual. The use of risk limits and the quarterly monitoring process are intended to ensure that Aegon limits its exposure to a single risk type.

The risk of concentration to an individual counterparty is covered by the Credit Name Limit Policy (CNLP) (refer to section C.3.3 Credit risk risk concentration for more detail). The CNLP Policy covers all asset classes such as equity, credit, cash and derivatives. The Prudent Person principle applies in this context as well. This principle is built into the Investment & Counterparty Risk Policy, and all Country Units are expected to comply with this principle or explain the reason for being non-compliant.

C.2.4 Risk mitigation

Aegon has generally positive income benefits from equity market increases and negative impacts from equity market declines as it earns fees on policyholder account balances and provides minimum guarantees for account values. Hedging of exposures may change those effects significantly and equity hedges are used extensively to manage the equity market risk of variable annuity investment guarantees.

Hedging programs are in place that are designed to manage the risks within the limits as defined as part of Aegon's Group risk policies. Equity hedge programs use equity options and dynamic option-replicating strategies to provide protection against the impact of equity market declines.

Aegon employs sophisticated interest rate measurement techniques. Fixed interest assets along with interest rate swap and swaption derivatives are used extensively to manage the interest rate risk exposure. Aegon operates an Interest Rate Risk policy that limits the amount of interest rate risk to which the Group is exposed. All derivative use is governed by Aegon's Derivative Use Policy.

Aegon operates a Currency Risk Policy that applies currency risk exposure limits both at Group and regional levels. Subsidiaries do not engage in direct currency speculation or program trading and any assets or liabilities not in the

functional currency of the business are hedged back to that currency. In any case where this is not possible or practical, the remaining currency exposure is controlled by limits on total exposure at both group and local level.

Aegon has issued debt instruments in Euro, US Dollar and British Pound denominations. The Group also uses currency derivatives such as swaps, forwards and futures to manage currency exposures.

Hedging programs are operated by many of the Country Units within Aegon. The performance of these hedge programs is monitored closely by both the Country Units and Aegon Group.

C.2.5 Risk sensitivity

Results of Aegon's sensitivity analyses are presented throughout this section to show the estimated sensitivity of various scenarios. For each sensitivity test, the impact on the Solvency II ratio of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon's regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Aegon calculates sensitivities of its Solvency II ratio as part of its risk management framework. The tables on sensitivities describe the shocks to parameters used to assess the sensitivities, and their estimated impact on the Solvency II ratio on December 31, 2016.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents55 Risk profile **Credit risk****Equity market risk and other investments risk**

Aegon is mainly exposed to a down shock in equities, predominantly via the variable annuity portfolio in the US and the reduction in the value of separate account business in the UK and the Netherlands.

Sensitivities	Scenario	Group
Equity markets	+20%	(1%)
Equity markets	(20%)	(6%)

Interest rate risk

The sensitivity towards lower interest rates is mainly caused by higher SCR of Aegon the Netherlands and Aegon UK and lower own funds in the US due to additional reserves. The upward interest rate shock scenario is affected by the impact from statutory hedge losses on the recognition of the DTAs within the US.

When these impacts are brought together at the Group level the result is a reduction in solvency level if rates go up or down, however, the reduction is more pronounced in the down scenario.

Sensitivities	Scenario	Group
Interest rates	+100 bps	+2%
Interest rates	-100 bps	(18%)

In general, increases in interest rates are beneficial to Aegon, while lower interest rates have a negative impacts in terms of reduced economic value and increased solvency capital requirements. However, rising interest rates may also introduce some negative effects as bond holdings incur losses. For example, falling bond values can erode unrealized gains and constrain recoverability of the full deferred tax asset.

C.3 Credit risk**C.3.1 Credit risk description**

The credit risk component of the pre-diversified SCR is as follows:

Aegon considers credit risk to have three components, namely:

Spread risk; the risk that the value of the bond reduces due to a general widening of credit spreads;

Migration risk; the risk that the rating of the bond falls due to an increased risk of default and as a consequence its value falls; and

Default risk; the risk that the counterparty fails to meet the agreed obligations.

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

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

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents

56 Risk profile **Credit risk**

Aegon's investment portfolios contain, among other investments, US treasury, agency and state bonds, Dutch government bonds and other government issued securities. The portfolios also include a significant proportion of corporate bonds investments, together with real estate and mortgage lending to US commercial and Dutch retail borrowers.

During 2016, Scottish Equitable plc sold its annuity portfolio to Rothesay and Legal & General. The sale consisted of two transactions where Aegon initially reinsured GBP 9 billion of liabilities. Until the point that the liabilities are legally transferred, Scottish Equitable plc retains the obligation to pay the annuity customers directly, and is therefore exposed to counterparty risk to both Rothesay and Legal & General in respect of their obligations to fund these annuity payments. The process to legally transfer the liabilities, and therefore to remove these counterparty exposures, is expected to be completed during 2017.

C.3.2 Credit risk assessment

Exposure to Credit Risk is monitored in two main ways:

At portfolio level; and

At the level of individual names

At the portfolio level, credit risk is measured under the Economic Framework (EF) that is designed using market consistent principles. In accordance with the relevant risk policies, absolute and early warning limits are set by each Country Unit, and for the Group as a whole, for the following credit risks:

Credit spread risk; and

Credit default / migration risk

These limits are updated once a year and every quarter actual exposure is compared to the limits. Compliance with the limits is a key aspect of Aegon's ERM framework. The results as of the fourth quarter of 2016 are shown in the table below.

It is important to ensure that there is no concentration to a particular name. The Credit Name Limit Policy covers this important aspect. All forms of exposure are covered by this policy, which is therefore not limited to credit. For example exposure through reinsurance contracts, derivative positions as well as asset holdings are included.

The exposure to individual names is measured and reported on a quarterly basis. Limits are defined for each Country Unit and at a Group level based upon the rating of the name, with higher ratings receiving more capacity. Compliance with these limits is expected and breaches must be reported to the relevant risk committee. Any breaches to the Group Limits are reported to the GRCC and only the GRCC can grant an exemption.

C.3.3 Risk concentration

The general account portfolios of Aegon business units are well-diversified with high credit quality exposures spread across a range of industry sectors.

In order to avoid concentrations of exposure to particular entities, Aegon operates a global Credit Name Limit Policy (CNLP), under which limits are placed on the aggregate exposure to any one counterparty. Limits are placed on the exposure at both group level and individual country units. The limits also vary by a rating system, which is informed by the ratings of the main rating agencies, S&P, Moody's and Fitch. Any exposure in excess of the stated limit will be identified and must be addressed as soon as possible.

Aegon Group also maintains a central list of any significant exposures and credit names that are subject to close monitoring. This process is used to coordinate risk management and de-risking activity, and to reduce Aegon's exposure to a potential deterioration in credit quality.

At the end of 2016, Aegon's largest corporate credit exposures were to American United Mutual Insurance, Reinsurance Group of America, Barclays and Citigroup. Aegon also had large government exposures, the largest being in the USA, the Netherlands, Germany, UK and Austria. Highly rated government bonds (AAA rated by all three agencies) and government exposure domestically issued and owned in local currency are excluded from the Credit Name Limit Policy. There was one Group-level violation of the Credit Name Limit Policy which will be resolved over time.

Solvency and Financial Condition Report Group 2016 based on IFRS as issued by the IASB

Table of Contents57 Risk profile **Credit risk**

For Aegon Group, the long-term counterparty exposure limits as at December 31, 2016, are as follows:

Group limit	2016
Amounts in EUR million	
AAA	900
AA	900
A	675
BBB	450
BB	250
B	125
CCC or lower	50

C.3.4 Risk mitigation

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

Derivatives

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

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