Annual report 2019 Aegon Bank N.V.

Aegon Bank N.V.
Thomas R. Malthusstraat 1-3
1066 JR Amsterdam

Contents

Report of the management board

1. General information

Aegon Bank N.V. with its labels 'Knab' and 'Aegon Bank', hereafter referred to as 'Aegon Bank', incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and registered with number 30100799 at the Chamber of Commerce in Amsterdam, with its address at Thomas R. Malthusstraat 1-3, NL-1066 JR Amsterdam, the Netherlands. Aegon Bank is a wholly-owned subsidiary of Aegon Nederland N.V. (hereafter "Aegon Nederland"), established in The Hague, the Netherlands. Aegon Nederland is a subsidiary of Aegon Europe Holding B.V., the ultimate parent of Aegon Nederland is Aegon N.V. (together with its subsidiaries "Aegon group") The Aegon group offers life insurances, pensions and asset management products in over 20 countries in the Americas, Europe and Asia and serves millions of customers. The Aegon group currently employs over 28,000 people worldwide.

Aegon Bank has been operating using two distinct labels: Aegon and Knab, both supported by its own operations and customer service. As the Knab organization has become more mature, and in an effort to further optimize customer service and cost efficiency, the decision was made to integrate the two operations and concentrate all of the Aegon Bank activities in one office; in Amsterdam. Although no changes have been made to the product and services suite and both labels are still active, Aegon Bank has started using the Knab label as its primary brand. In this annual report we also will use Knab to also refer to the whole organization of Aegon Bank N.V.

1.1 Purpose and mission statement

The purpose and mission statement of Aegon Bank with its primary label Knab is to

"*make customers feel at ease when it comes to their finances, each and every day."*

This mission statement strongly aligns with Aegon Nederland's mission to "enable people to make conscious decisions about their financial future" . It also resembles the Future Fit strategy to become the "customer-driven company of the future". This means doing the right things in the best possible way in the interests of our customers. When money matters, we've got your back.

With the Knab operations reaching substantial size, it was decided to integrate Aegon Bank and Knab to combine the strengths of the two banks in online/digital banking. Knab will be the single banking brand for Aegon Nederland contributing to the 'scale-up for the Future' strategy within Aegon Nederland's strategy. The integration of activities is expected to improve overall customer satisfaction, as well as position the combined banks to operate more efficiently and better positioned to balance growth in an environment focused strongly on controls, also in a continuously more challenging regulatory environment.

By joining forces the bank now services over 650,000 customers. It offers daily banking such as payment services, financial planning tools and alerts. Furthermore, it offers third and fourth pillar banking products for future income with savings and investments products (incl. tax friendly solutions), with a focus on long-term wealth accumulation. With these propositions, brought together under the strong brand of Knab, we are able to deliver value to consumers and smart-scale enterprises today, tomorrow and in the future.

The integration resulted from a comprehensive review of the strategy of Aegon Bank and Knab. Our customers live in a society where they are becoming increasingly responsible for their own financial situation. That is why we want to be the most customer-centric provider of services to help entrepreneurial-minded people to manage their money matters, for now and in the future. This is primarily the self-employed customer, and secondly the retail customer. With Knab the customer can arrange their money matters consciously, simply and effortlessly.

Knab values open and transparent communication, both internally and externally. We love to learn from our customers, and are dedicated to further improve our services together. We regularly invite customers to provide feedback, both online and offline. Out entrepreneurial mindset is constantly looking for new opportunities to deliver value to customers.

Our customers come to us for meaningful, understandable and easy-to-use products and services for their daily money matters such as payments, bookkeeping and wealth accumulation for later, such as (bank) savings and investments. Our customers appreciate our customer-centric, fair and human approach. But also our positive attitude towards financial services. To better help our customers we employ high-quality, automated and controlled processes. We apply technology in a smart manner, without losing our human touch through our involved and well educated employees. This is how we build a financially stable, sustainably profitable and compliant bank.

Based on the above Knab has defined the following goals:

- A customer-centric, fair bank, focused on customer growth and a high NPS
- A financially stable, sustainably profitable and compliant organization
- A more independent bank, loosely coupled from the insurer Aegon
- Motivated and involved employees

To achieve this, we will focus on 5 leading medium term KPIs:

- Customer NPS of +40 (r-NPS)
- Annual net customer growth of 70,000
- Cost-income ratio of 60%
- Return on Capital of 9%
- Increasing employee-NPS;

1.2 Main activities, products, services and internal organizational structure

Aegon Bank offers banking solutions to Dutch consumers and small-scale enterprises. In October 2019 Aegon Bank integrated its two business units Aegon Bank and Knab. Aegon Bank continues to operate under these two labels. Going forward Knab will be used as Aegon Bank's main brand in the market.

Knab label

Introduced in 2012 as one of the first fully online / digital banks in the Netherlands operating under the Aegon Bank banking license. Regardless of operating under the Aegon Bank license, the market perceives Knab as an autonomous bank with its own branding, marketing and culture and has, since origination, grown to a customer base of more than 250,000 customers. As an online bank, Knab offers payment accounts, savings and a basic investment product. Knab aims to be the most customer-oriented financial platform in the Netherlands, by informing customers about their personal financial situation and enabling them to achieve their financial goals. Therefore Knab's mission is to make people feel at ease when it comes to their finances, every day. This reflects the core of Aegon's mission to help people achieve a lifetime of financial security.

Aegon label

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

1.3 Key elements of policy

Aegon Bank's legal standards are translated into policies, procedures and work instructions. Failure to comply with these legal (and social) standards is at the expense of Aegon's reputation and could damage the trust of customers in the financial sector. In addition to external regulations, Aegon Bank adheres to codes of conduct that employees must comply with. The relevant regulations (detailed in policies and/or Codes of Conduct) applicable to Aegon Bank are displayed in the Aegon Policy House. The policies ensure that Aegon Bank is compliant with laws, regulations and social standards.

During 2019, the Board of Directors discussed several important subjects and developments, such as:

Strategy & HR

- Further improvement of the control environment and culture Strategy 2019 – 2022 (Project One)
- HR related subjects, long term absence, vacancies as well as the outcome of the Aegon Global Employee Survey
- Redesign of the organizational structure for further execution of the Aegon Bank strategy
- Regulatory developments (including new legislation)

Clients

- Know your customer (KYC) and Customer Due Diligence (CDD)
- Monitoring the customer Net Promoter Score (NPS)

Finance, Capital & Risk

- Financial results and capital plan (Basel & IFRS)
    - Capitalization considerations
    - ALM: strategic asset allocation
- Issuance of unsecured funding (SNP)
- Interest rate risk Banking Book (IRBB) roadmap and Credit Risk roadmap
- Model landscape
- Budget and Mid-term planning
- Strengthening the business control function in order to better monitor and steer on costs.
- Outcomes of controls testing in relation to the Sarbanes-Oxley Act
- Macroeconomic and market developments

1.4 Composition of the management board and gender diversity

The Statutory Board under the articles of association consists of a CEO (Eric Rutten through 30 September and per 1 October 2019 Nadine Klokke), a CFO (Mike de Boer) and a CRO (Ebbe Negenman). They are complemented by the COO, who together form the management board. Aegon Bank has the intention to expand the management board of Aegon Bank with the roles of Chief Commercial Officer and Chief Technology Officer, as well as a Manager Transition and Integration.

Enhancing gender diversity on the Statutory Board and supervisory board is an important objective for Aegon Bank. Selection and appointment are based on expertise, skills and relevant experience. The supervisory board ('SB') also takes gender diversity into consideration in the light of its goal to have a balanced composition on the Statutory Board. The current composition of the Statutory Board meets the 'balanced composition' requirement under Dutch law (at least 30% of the seats should be filled by women and at least 30% by men) with the appointment of Nadine Klokke as CEO of Aegon Bank.

With the expansion of the supervisory board from 3 to 4 members the current composition of the supervisory board does not meet the 'balanced composition' requirement under Dutch law (at least 30% of the seats should be filled by women and at least 30% by men). When identifying candidates for open positions, Aegon Bank actively searches for suitable female candidates with the help of external recruitment firms.

1.5 Remuneration policy

The remuneration of Aegon Bank's Board members is in line with Aegon Bank's remuneration policy. Aegon Bank pursues a careful, sound and sustainable remuneration policy. Like Aegon Nederland, Aegon Bank has adopted the Regulation on Sound Remuneration Policies (*Regeling beheerst beloningsbeleid*), and its remuneration policy meets the requirements stipulated in that regulation. Aegon Bank's remuneration policy applies to the management board, management teams, senior management and other Aegon Bank employees, and complies with applicable national and international regulations, as well as the Governance Principles. The policy is also consistent with the Aegon Group Global Remuneration Framework (AGGRF 2019), drawn up by Aegon N.V., and has due regard for developments in society. The remuneration policy is in line with Aegon Nederland's strategy, vision, core values and risk appetite.

Policy

In 2019, members of the Statutory Board were eligible for variable remuneration. The new CEO of Aegon Bank who started on 1 October 2019 is not eligible for variable remuneration, which is in line with Aegon Nederland's intention to further reduce forms of variable compensation and which leads to abandoning variable compensation all together from 2020. For discussing variable compensation, when referred to the CEO of Aegon Bank hereafter, the CEO that was in office through 30 September 2019 is meant. As from 1 January 2020 Aegon Bank abolished the variable remuneration entirely.

In 2015, Aegon Group introduced a bonus pool. Due to the limited number of Aegon Bank employees eligible for variable remuneration, Aegon Bank's variable remuneration is part of Aegon Nederland's bonus pool.

Variable remuneration is based on performance and awarded according to predefined performance indicators at three levels: (i) Aegon N.V., (ii) Aegon Nederland N.V., and (iii) personal. The performance indicators are a mix of financial and non-financial criteria.

The maximum variable remuneration for Aegon Bank's CEO in 2019 is 20% of his fixed salary. The CEO is also a member of Aegon Nederland's Management Team. The 'on-target level' is 13.33%. For the other members of the management board, the maximum variable remuneration is 12% of their fixed salary, with the ‘on- target’ level being set at 8%.

Based on criteria laid down in the European Banking Authority Regulatory Technical Standards (EBA RTS), Aegon Bank designated a number of employees as Identified Staff in 2019. Management board members qualify as Identified Staff, Identified staff are subject to specific rules on the payment of variable remuneration. The variable remuneration for Identified Staff is paid in cash and shares on a fifty-fifty basis. Aegon Bank’s CEO receives 40% of the variable remuneration awarded upfront, with the remaining 60% being deferred evenly over 3 years following the performance year. Variable remuneration is paid to other Identified Staff as follows: 60% of the variable remuneration awarded is paid upfront, with 40% being paid conditionally, equally divided over a 3-year period following the performance year. An ex-post assessment may identify reasons for lowering these amounts or not paying any variable remuneration at all.

The vested shares of Aegon Bank’s CEO and other Identified Staff are subject to a 1-year holding period, with the exception of shares withheld to cover payment of any taxes due in connection with the vesting of the shares.

Governance

In accordance with Aegon Bank’s remuneration policy, the supervisory board has the following duties and responsibilities: (i) approve the general principles of the remuneration policy, (ii) periodically assess the general principles of the remuneration policy, (iii) responsibility for the management board’s remuneration policy, (iv) review the remuneration of Identified Staff, (v) instruct the management board to implement the remuneration policy, and (vi) instruct the Internal Audit to assess the implementation of the policy and procedures covered.

Under the governance provisions of Aegon Bank’s remuneration policy, the supervisory board is authorized, following the results of an ex-post assessment, to suspend or cancel all or any part of the variable remuneration granted conditionally to Identified Staff (‘malus clause’).

Under the governance provisions of Aegon Bank’s remuneration policy, the supervisory board is authorized to recover any variable remuneration previously paid to members of the management team and senior management if it was granted on the basis of inaccurate financial or other information (‘claw-back’ clause).

The remuneration policy and its implementation were discussed in meetings held by the supervisory board during 2019. The supervisory board also discussed the level of variable remuneration. The supervisory board approved the 2019 variable remuneration targets for Identified Staff within the framework set out in the AGGRF. The remuneration was in line with Aegon Bank’s remuneration policy.

Policy implementation

In 2019 the actual pay-out of fixed and variable remuneration was in line with the remuneration policy. Variable remuneration for the Statutory Board and other Identified Staff was paid 50% in cash and 50% in Aegon N.V. shares. In 2019, in accordance with Aegon Nederland’s remuneration policy, 40% of the 2018 variable remuneration was paid directly to Statutory Board members, with the remaining 60% being conditional. That 60% will be paid in three equal parts over a period of three years, unless an ex-post risk assessment identifies any reasons for lowering the amounts or not paying any variable remuneration at all. In 2019, there were no situations within Aegon Bank that required applying the claw-back clause to any variable remuneration awarded or already paid. An individual adjustment (malus) has been applied to the 2019 variable compensation payable from 2020 onwards.

Supervisory board’s Review of Remuneration

Aegon Bank’s supervisory board discussed remuneration as part of its regular meetings. In the supervisory board meeting of 8 May 2019 the variable compensation granted to Aegon Bank’s Board members was discussed, based upon review and analysis done by the HR department and compliance departments of Aegon Nederland N.V.

The supervisory board’s remit is to monitor the existence of a sound remuneration policy and to ensure that the remuneration policy is generally consistent with the sound and prudent management of Aegon Bank to the long-term interests of its shareholders.

The supervisory board acts in accordance with the principles laid down in the Regulation on Sound Remuneration Policies under the Financial Supervision Act 2011, the Banking Code, Aegon N.V.’s Global Remuneration Framework 2016, and Aegon Nederland’s Remuneration Policy 2016.

At the balance-sheet date, no individual employed by Aegon Bank was paid a remuneration in excess of EUR 1 million.

For further information regarding remuneration please refer to note 20.3 and 20.4 in the consolidated financial statements.

1.6 Regulation and supervision

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

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

In 2019, DNB has performed an on-site inspection of the risk management practices related to investments of Aegon Bank in loans originated via third party lending platforms. This inspection has resulted in an instruction (aanwijzing) of DNB to AEB to improve its credit risk framework (amongst others policies and procedures) for these loans. AEB fully endorses the improvements required by DNB and is working on the implementation thereof.

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

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

1.7 Business developments

Our customers live in a society where they are becoming increasingly responsible for their own financial situation. That is why we want to be the most customer-centric provider of services to help entrepreneurial-minded people to manage their money matters, for now and in the future. This is primarily the self-employed customer, and secondly the retail customer. With us, the customer can arrange its money matters consciously, simply and effortlessly. Our customers come to us for meaningful, understandable and easy-to-use products and services for their daily money matters (such as payments and bookkeeping) and wealth accumulation for later, such as (bank) savings and investments. Our customers appreciate our customer-centric, fair and human approach. To better help our customers, we employ high-quality, automated and controlled processes. We apply technology in a smart manner. This is how we build a financially stable, sustainably profitable and compliant bank.

Project ONE

During 2019, the decision was made to integrate Aegon Bank N.V. and Knab Advies & Bemiddeling N.V. (KAB) to combine the strengths of these entities in one online/digital bank. Knab will be the single banking brand for Aegon in the Netherlands. As such, KAB discontinued its mortgage and insurance platform activities during the course of 2019 and ceased all mediation and advice activities. As such no activities remain in the separate legal entity Knab Advies & Bemiddeling N.V. Remaining activities have been insourced again by Aegon Bank N.V.

Project ONE entailed amongst others, the integration of Knab and Aegon Bank, the relocation to Amsterdam and a more autonomous self-supporting position within Aegon Nederland as a specialized subsidiary. This is in line with the agile transition that Aegon Nederland is going through, that is granting more autonomy to subsidiaries, in order to maintain competitiveness and become more adaptive to market changes. This resulted in redefining the services that Aegon Bank obtains from Aegon Nederland. Client Contact Center, Marketing & Communications and Facility and IT services will over time be fully operated by Aegon Bank. For other services such as HR administration, Internal Audit, Financial Services, Asset Management and Treasury activities the service level agreements will remain in place.

As part of the integration, the two management teams and the organizations of Aegon Bank and Knab were merged to establish an integrated steering and enhance control.

KYC

In 2019, Know Your Customer (KYC) has been a top priority within Aegon Bank by means of executing a clear KYC optimization and enhancement program (the 'KYC Project'). Aegon Bank NV has made considerable progress with the implementation of improved KYC policies and processes. Major steps have been taken to improve our client onboarding systems and processes as well as to increase maturity of transaction monitoring. By achieving this, a strong foundation has been laid for a strengthened KYC framework, implementing newly available technology.

For example, Aegon Bank successfully implemented a mobile ID-scan in combination with iDeal bookings for Knab retail clients. Additionally, the planning is to implement face scan technology for onboarding of clients. With regard to Anti-Money Laundering monitoring, Aegon Bank has successfully designed and introduced a new set of transaction monitoring rules for detecting potential risks with regard to money laundering, financing of terrorism, sanctions and tax evasion.

Within the KYC Project, a multidisciplinary approach was taken in which all relevant stakeholders participated and in which external subject matter experts provided assistance. This has resulted in a renewed and robust KYC framework that is set up, including a renewed Risk Appetite Statement. Further KYC enhancement will take place in 2020.

Customer growth

Aegon Bank continued to grow in 2019. The label Knab grew to a total of 259,214 clients, consisting of 124,489 retail customers and 154,547 business customers. Note that the sum of the parts is greater than the total, due to a segment of customers having both a business and a consumer account. Growth was primarily achieved by acquisition of new business account holders (+40,401), while retail also showed a steady growth (+12,376).

The Aegon Bank label counted a total of 430,743 clients at the end of 2019. Overall number of clients continues to decrease whereas overall savings increased. Majority of the outflow are Box 3 Aegon Sparen clients with a small savings balance whereas new clients (Box 1) bring in larger sums of money. Continuous low interest rates have shown a decreasing demand in our Aegon Bank ''Deposito'' savings products causing an further outflow of clients. However, due to our favorable market banksparen position (top 3 position), banksparen continues to remain a stable factor for attracting new clients and savings.

NPS

The Net Promotor Score (NPS) of Aegon Bank's label Knab remained one of the highest in the industry. The relational-NPS went up by 3 points and measured +38, while the transactional-NPS lowered by 2 points to +43. Compared to industry standards, Knab is among the top performing brands in terms of NPS.

The NPS of Aegon Bank continued to perform below target. The low NPS is mainly due to the lack of client contact (on average, client contact occurs once every 4-5 years) and Because the relationship with the client is predominantly held by the intermediary.

Crowdfunding

During 2019 Aegon Bank decided to no longer offer KnabCrowdfunding as a product. The cooperation with Collin Crowdfund N.V. has been altered. Clients that had Crowdfunding investments have been migrated to the Collin Crowdfund organization.

Issuance senior non-preferred notes (SNP)

On 21 June 2019, Aegon Bank issued EUR 500 million senior non-preferred notes, which qualify as capital within the meaning of article 212rb of the Dutch Bankruptcy Act (Faillissementswet) (or any other provision implementing article 108 of the Bank Recovery and Resolution Directive in the Netherlands) and which may, under circumstances be subject to bail-in. The proceeds of this issuance enable Aegon Bank to meet its indicative Minimum Requirement for Own funds and Eligible Liabilities ("MREL"), which are anticipated to be applicable as of 2020.

Aegon Bank N.V. credit agency rating

Standard & Poor's rating for Aegon Bank N.V. remained at A+ during 2019 with a negative outlook. This outlook mirrors the negative outlook on the rating of Aegon Bank N.V.'s ultimate parent: Aegon N.V. Fitch's rating of Aegon Bank N.V. ended the year on the A-level with a stable outlook

Horizon

In the first quarter of 2018, project Horizon was initiated at Aegon Bank with the focus on improving the risk management function at the bank and achieving a high-quality risk management organization in line with the business strategy and growth ambitions of the bank. Project Horizon identified approximately 260 deliverables that would contribute to the bank's ambition to strive for excellence in risk control.

Risk Culture

Aegon Bank is growing rapidly and believes that the corporate culture is the foundation for accomplishing its strategy. A strong corporate culture ensures that all employees share the same core values enabling Aegon Bank to find the right balance between being in-control and innovation as well as to identify the risks and assess the impact of these risks. Unique within Aegon Bank is the open, informal and result-oriented culture, which is valuable to the manner of communication: both top-down and bottom-up. This ensures better decision-making and behavior within Aegon Bank, which is in the best interest of the customers as well. At the end of 2019 we formulated a risk mission and vision, with subsequent values and behaviors to be included in the overall DNA of the bank. We take intelligent risks is what we stand for; honest, accountable and committed to learn. Where the tone at the top sets the example. This embedding of risk in the core of our culture, is a transition that will take time. Progress will be measured by quarterly employee surveys and a yearly independent employee survey. Aside of this, retrospectives will become a normal element in the way we work.

1.8 Brexit

On 31 January 2020 the United Kingdom (UK) left the European Union (EU). The UK has until the end of 2020 to negotiate a trade deal with the EU and prevent a so-called hard Brexit. A hard Brexit will have consequences for the derivatives contracts Aegon Bank holds with UK counterparties as they may lose their eligibility under European regulations. In the last few years Aegon Bank has prepared for this possibility and has worked towards replacing its UK counterparties for derivatives. For bilateral derivatives with a UK counterparty contracts have been set up to replace the counterparty by a continental (non-UK) counterparty of the same parent company. For centrally cleared derivatives, Aegon Bank has gradually moved from LCH in London to Eurex in Frankfurt. Currently, Aegon Bank has moved almost all swaps (both bilateral and LCH) to Eurex. The ongoing situation is carefully and continuously monitored by the Asset and Liability Committees of the Bank.

1.9 IBOR transition

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

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

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

2 Financial information

2.1 Developments during the year

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

Amounts in EUR thousand	**2019**	**2018**
Operating income	190.534	162.362
Operating expenses	-150.233	-135.861
Underlying earnings before tax	**40.301**	**26.501**
Fair value items	18.654	-22.331
Gains on investments	1.966	10.104
Impairment charges	-16.315	-8.504
Other charges	-5.378	-8.248
Non-underlying earnings before tax	**-1.073**	**-28.979**
Income before tax	**39.227**	**-2.478**
Income tax	-12.598	8.173
Net income	**26.629**	**5.695**
Return on equity[1]	4.4%	3.3%
Cost-to-income ratio[2]	78.8%	83.7%

General

Continuing organic growth of bank savings resulted in an increase in the balance sheet of EUR 1.8 billion, as compared to year-end 2018. From a funding perspective, the increase is mainly the result of increased savings due to growth in Knab by EUR 0.7 billion, BankSpaarHypotheken by EUR 0.1 billion and Aegon Bank savings by EUR 0.1 billion. Borrowings increased by EUR 0.5 billion due to Aegon Banks inaugural issue of a Senior Non-Preferred Note (SNP). Liabilities increased by EUR 0.3 billion due to the change in market value of derivatives driven by volatility of market interest rates during 2019.

On the asset side of the balance sheet, the mortgage portfolio increased by EUR 1.0 billion. This increase relates for EUR 0.3 billion to the effects of hedge accounting due to the sharp decline of market interest rates during 2019. The consumer loan/SME portfolio increased by EUR 0.2 billion. This growth is due to the origination of new loans at FinTech companies Funding Circle (United Kingdom), Zopa (United Kingdom) and Auxmoney (Germany). During 1H 2019 Aegon Bank sold its investment in loans originated by Younited Credit (France).

Operating income

In line with the growth of the bank, the interest income increased by EUR 29.3 million. The increase is mainly attributable to the increased balance sheet due to investments made in mortgages, consumer loans and SME loans. This increase was offset by a higher net amortization on mortgages and a decrease in interest income on the financial assets measured at fair value through OCI portfolio due to declining market rates.

1. Return on equity is calculated as annualized Underlying earnings after tax (applying a nominal tax rate) divided by average IFRS equity excluding the revaluation reserve. There is no IFRS financial measure that is directly comparable to return on equity. The Issuer believes that return on equity provides meaningful information about the performance of Issuer’s business.
2. Cost-to-income ratio is calculated as Operating expenses divided by Operating income as defined in the Issuer’s Underlying earnings before tax measure. There is no IFRS financial measure that is directly comparable to the cost-to-income ratio. The Issuer believes that the cost-to-income ratio provides meaningful information about the performance of Issuer’s business.

The interest expense increased by EUR 5.7 million. Although the entrusted funds increased as compared to 2018, interest charges on saving accounts decreased due to the declining interest market rates. On the other hand interest charges increased due to the increase interest paid on derivatives and an increase in interest expense due to the issue of the SNP notes.

The increase in fee income of EUR 4.6 million is mainly due to the growth in the number of customers for Knab.

Expenses
Total expenses increased by EUR 14.4 million to EUR 150.2 million. The operating expenses increased primarily due to growth of Aegon Bank as compared to 2018. Furthermore costs increased due to the integration of Knab and Aegon Bank (project One) and additional KYC expenses. Overall the cost to income ratio decreased from 83.7% to 78.8% as the increase in income exceeded the increase in underlying expenses.

Fair value items and gains on investments
The result from financial transactions improved by EUR 22.3 million. The increase is mainly due to the hedge ineffectiveness of our hedge accounting program. Although hedge accounting is applied, an ineffective portion still remains in the profit and loss due to the basis risk that Aegon Bank is exposed to. In 2019, this led to a positive result of EUR 22.0 million, whereas in 2018 a loss of EUR 8.4 million was recorded. The increase was partly offset by a EUR 9.6 million lower realized result in the debt securities portfolio.

Impairments
Mainly due to the growth in the consumer/SME loan portfolio the impairments of Aegon Bank increased from EUR 48.4 million to EUR 69.1 million. The total ECL coverage ratio[1] of the impairment provision of the portfolio increased from 5.9 % at the end of 2018 to 7.4% at the end of 2019. This increase in ECL coverage ratio is mainly the result of maturing effects of the relative young portfolio.

In underlying earnings before tax management's records its best estimate of the investment return on consumer loans and SME loan investments (net of expected impairment). Of the total impairment charge EUR 52.8 million has been reported under underlying earnings (2018: EUR 39.9 million)

Other charges
Total other charges improved by EUR 2.9 million to EUR 5.4 million. The 2019 charge mainly consists of recharged restructuring costs due to project One and recharged platforming costs. In 2018 Aegon Bank provided for possible legal claims in relation to legacy products.

Income tax
The future change of Dutch corporate income tax rates had a negative impact of EUR 2.8 million, which is processed through deferred taxes (2018: EUR 7.4 million positive impact).

2.2 Regulatory requirements

As per year end Aegon Bank N.V. reported the following regulatory ratios:

	2019	2018
Common Equity Tier 1 ratio	19.8%	21.6%
Total Capital Ratio	20.0%	21.9%
LCR	212%	209%
NSFR	147%	141%
Leverage ratio	4.6%	4.4%
Asset Encumbrance ratio	19.5%	19.4%

Capital
During 2019 total IFRS capital of the company increased by EUR 102.8 million. In order to facilitate its growth path Aegon Bank received two capital injections, totaling to EUR 75 million. Furthermore, the equity of the company increased due to the year to the 2019 result and an increase of the revaluation reserve by EUR 1.6 million to EUR 9.4 million.

At the end of 2019, DNB has informed Aegon Bank that it has decided to apply a higher risk

[1] ECL coverage ratio is calculated by the total impaired amount compared to the portfolio amount

weight pursuant to Section 128 CRR to certain loans originated via third party lending platforms, as these loans are deemed high risk pursuant to Article 128 CRR. This reclassification has led to an increase in the bank's total risk exposure amount (TREA). At the same time the SREP 2019 decision has led to a decrease of 2.6% in the bank's Total SREP Capital Requirement (TSCR) on a total capital ratio basis, whereas the total capital ratio decreased by 1.9% in 2019. Both effects, the high risk classification and the SREP 2019 decision, were effective as per 31 December 2019.

The Common Equity Tier 1 ratio decreased from 21.6% to 19.8%. During 2019, the total risk exposure amount increased by EUR 816 million to EUR 3.7 billion. This increase is mainly due to the high risk classification of certain investments and purchases in mortgages, consumer loans and SME loans. Driven by lower interest rates posted cash collateral for derivatives and basis adjustment increased also resulting in a higher TREA.

Leverage Ratio

The Leverage Ratio is a regulatory capital adequacy measure under CRD IV/CRR. Leverage is defined as the relative size of an institution's assets and off-balance sheet obligations as compared to the institution's own funds. The Leverage Ratio is calculated as an institution's capital divided by that institution's total non-risk weighted exposures, expressed as a percentage.
Aegon Bank complies with the internal minimum requirement of 4% for 2019 and the (expected future) external minimum requirements; the Leverage Ratio at 31 December 2019 was 4.6% (2018: 4.4%)

Funding and liquidity

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are monitored against the minimum internal limits.

LCR

The Liquidity Coverage Ratio is the requirement that banks should have enough (extremely) high quality liquid assets ((E)HQLA) in their liquidity buffer to cover the difference between the expected cash outflows and the expected capped cash inflows over a 30-day stressed period. The numerator of the LCR represents the liquidity buffer, i.e. the amount of adjusted liquid assets that a credit institution holds. The denominator of the LCR represents the net liquidity outflows over a 30 calendar day stress period, which is the sum of liquidity outflows reduced by the sum of capped liquidity inflows.

The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The LCR increased from 209% to 212%, which is mainly due to higher liquid assets, partially offset by higher net outflows. However, the LCR ratio remains above the external limit of 100%.

NSFR

The Net Stable Funding Ratio (NSFR) is the requirement that banks should have enough stable funding to support their assets and activities. The NSFR, based on a 1-year horizon, is calculated by dividing the available amount of stable funding by the required amount of stable funding. The NSFR increased by 6% to 147%, which is mainly due to issuance of the SNP notes.

AER

An asset is treated by Aegon Bank as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn.
The Asset Encumbrance Ratio (AER) is related to liquidity risk, because elevated encumbrance means that there are fewer assets available for liquidation or capable of being pledged when needed.
In 2019 the AER slightly increased with 0.1% to 19.5%. The increase in encumbered assets is driven by lower interest rates and partially offset by balance sheet growth of Aegon Bank.

3 Main risks and uncertainties
3.1 General

Taking measured risks is at the core of a bank's business. As a financial institution offering banking services, Aegon Bank is exposed to a variety of risks. From a financial perspective, Aegon Bank is primarily exposed to credit risk, counterparty risk, market risk, interest rate risk, and liquidity risk. Aegon Bank is also exposed to non-financial risks, e.g. operational risks and compliance risks.

Aegon Bank manages risks on behalf of its customers and its stakeholders. The Enterprise Risk Management (ERM) Framework of Aegon Bank provides the core structure that allows for assessing, controlling and managing all the risks Aegon Bank is exposed to. The ERM Framework is therefore essential in safeguarding the financial strength of Aegon Bank.

The ERM Framework is a comprehensive framework. Not only does it define the principles on how risk management should be integrated in the daily business activities of the bank, but it also sets the guiding principles on how risk management is imbedded in the strategic planning process of Aegon Bank. In addition, the framework ensures the identification, measurement and control of risks at all levels in the organization, and it also provides the identification for new risks. The framework considers the measurement and reporting of risks, and addresses the importance of the general risk awareness, attitudes and behavior of employees, management, and leadership.

The ERM Framework is effective only when a sound and consistent risk culture exists throughout the whole organization.
At Aegon Bank, being entrepreneurial, one of the core values, implies that risks cannot be avoided. Similar to the clients, Aegon Bank knows that understanding the risks is the "conditio sine qua non" of doing business. Aegon Bank realizes that the essence of risk management is that "we know what we are doing". Therefore, under no circumstances does Aegon Bank accept risks coming from "not knowing what we're doing". Aegon Bank only takes risks which are understood and only within the risk appetite as set by the management board.

A strong risk management function, integrated within the daily management of the business and the strategic planning, gives the bank a license to operate. It helps the bank to protect its reputation, lower the cost of capital, reduce costs and ultimately minimize the risk of investigation, prosecution and penalties, because the bank does things the right way. By effectively managing the risks, the bank enhances its position by building trust.

Otherwise stated, the risk management & compliance function is:
"On behalf of the management board, responsible for the supervision and oversight of the organization acting in a risk aware manner and proactively advising the management board. In this context, Aegon Bank expects the risk management function to proactively support management by highlighting risk responsibilities and supporting management in the design and implementation of appropriate controls".

The strategy with respect to risk and the alignment with the corporate strategy is formulated in the bank's Risk Strategy. This strategy provides direction regarding the level of risk consistent with the requirements of various stakeholders, such as our customers, shareholders, employees, regulators, and rating agencies. The risk management strategy ensures that the bank maintains a solvency and liquidity position at all times so that Aegon Bank can fulfil its obligations to our customers even when high adverse scenarios unfold or material risk events occur. It is our strategy to be competitive in target markets, have reliable access to affordable funding and provide stability to shareholders. Risk management supports the strategy by ensuring a common system for measuring risk, which creates a level playing field for competing for our resources. The execution of these building blocks is a continuous and iterative undertaking, including periodic or ad hoc adjustment of the strategy and risk appetite based on new risk information or changes to the business or business environment.

3.2 Financial risks

Within Aegon Bank, financial risk includes credit risk, interest rate risk in the banking book (IRRBB), liquidity risk and market risk, namely foreign exchange risk. Aegon Bank does not hold any trading book. Of these risk categories, credit risk is the most substantial source of financial risk for Aegon Bank. Aegon Bank's credit risk relates to its debt securities and retail assets such as residential mortgages, consumer loans and retail SME loans. Aegon Bank monitors its credit risk exposures against opportunity, target, warning and act limits as set in Aegon Bank's Risk Appetite document. Climate risk is assessed via stress testing, as well as where amongst other scenarios credit risk parameters are stressed related to either physical risk or a deterioration of value due to policy changes and the energy transition.

Aegon Bank uses derivatives for hedging purposes only, namely for its interest rate risk and foreign currency exposures. Aegon Bank does not use any credit default swaps to hedge its credit risk exposures. With regard to the management of the IRRBB, Aegon Bank aims for a neutral interest rate position, and applies a relatively simple interest rate hedging strategy (payer swaps). In order to minimize the IFRS P&L impact, hedge accounting is applied. As a retail bank, Aegon Bank's liquidity risk originates mostly from retail savings on the liability side of the balance sheet. The key expression of the liquidity risk within Aegon Bank is through internal stress testing, which is put in place to determine whether Aegon Bank would be able to survive a period of major liquidity stress. These stress tests take into account all available and required liquidity and the impact thereon in times of both market and bank-specific stress events. Aegon Bank adopted a more strict approach compared to the Basel III liquidity standards and is therefore compliant with the regulatory requirements.

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

3.3 Non-financial risks

Aegon Bank defines operational risk as follows: "Operational risk is defined as the risk of losses arising from inadequate or failing internal processes and controls, people and systems, or external events". As part of this definition, Aegon Bank identifies eight categories, including business risk, legal and compliance risk, financial crime risk, processing risk, system and business disruption risk, tax risk, facility risk and people risk.

One of the key operational risks is outsourcing risk. Aegon Bank operates as a relatively small organization with various outsourced activities. Outsourcing occurs if Aegon Bank asks a third party (or supplier) to perform activities that would normally be undertaken by the bank itself, now or in the future. Aegon Bank has a significant number of suppliers and the bank should conduct its business in a controlled and sound manner at all times. As a consequence, outsourcing risk is an important risk for Aegon Bank. The bank should manage the risks associated with its outsourcing arrangements. The Senior Management of Aegon Bank is ultimately responsible for the proper management of the risks associated with the outsourced activities. Aegon Bank has put a policy in place on its approach to outsourcing. All outsourcing arrangements are also subject to a formal and comprehensive contract. The outsourcing contract requires the outsourcing service provider to protect confidential information. Compliance (or possible non-compliance) with this policy is reported in the Non-Financial Risk Committee.

The operating results and financial position can be adversely affected by natural and man-made disasters such as hurricanes, riots, fires, explosions and the risk of a pandemic (such as COVID-19). Furthermore, natural disasters, terrorism and fires could disrupt Aegon Bank's operations and could result in significant loss of property, substantial personnel losses and the destruction of company and customer information.

From a compliance risk perspective, Aegon Bank has focused on Know Your Customer (KYC) in 2019, by means of executing a clear KYC optimization and enhancement program. By bringing the client onboarding systems and processes to the new standard, increasing the maturity of transaction monitoring and by implementing new available technology the KYC framework has been further strengthened. Going forward, the KYC program will entail a further enhancement, meaning: remediation on client files and transaction monitoring against the banks risk appetite. The guiding principles in the enhancement phase are a high degree of process and customer contact automation on a risk-based priority setting.

3.4 Risk Management

The CRO has a primary responsibility within management board for adopting, implementing and monitoring the overall risk policy. The overall policy on risk appetite and risk tolerance was confirmed by the management board and approved by the supervisory board.

The supervisory board supervises the risk policy adopted by the management board. The supervisory board assesses, at strategic level, whether capital allocation and liquidity requirements are in line with the approved risk appetite. In this matter, the supervisory board is advised by the Risk & Audit Committee. The supervisory board's assessment verifies that in general, Aegon Bank's commercial activities are appropriate within the context of the risk appetite it has endorsed.

Aegon Bank uses a 'three lines of defense' model. The first line is basically the business itself. Its primary responsibility is to manage all risks arising from doing business. The risk management function (the Risk Management & Compliance department) is organized as the second line of defense. It operates from an independent position and has a monitoring and challenging role. Aegon Bank has organized the risk management function centrally and independently from Aegon Nederland. There are regular consultations with the CRO and CEO to ensure the management board is aware of any material risks the company is facing over time, in order for these to be managed properly. The management board makes all decisions that are of material significance for Aegon Bank's risk profile, capital allocation or liquidity requirement.

To safeguard customers' best interests, Aegon Bank does not simply put investment propositions on the market. Every new and updated proposition follows an approval process. In this process, Aegon Bank carefully balances the risks in an investment proposal and weighs it against the duty of care towards the customer, financial sustainability and suitability within the Aegon Bank vision, strategy and objectives. A proposition is not executed or brought to market until the approval process is successfully completed.

In addition to the approval process, Aegon Bank performs a quality assessment of implemented propositions. This is a task in which implemented propositions are selected through the use of pre-defined risk indicators, and its main goal is to safeguard customers' interests. Both processes determine whether an investment proposition meets Aegon Bank's current standards. They incorporate statutory requirements and consider whether the proposition is cost efficient, useful, secure and comprehensible for the target group as well as whether it fits Aegon Bank's vision, strategy, core values and competences.

Internal Audit

As explained above, Aegon Bank and Aegon Nederland are organized according to a 'three lines of defense' model. In this set-up, Internal Audit Nederland is the third line of defense and is primarily responsible for systematic evaluation and improvement of the effectiveness of risk management, control, and governance processes associated with the activities of the Aegon Nederland insurance companies and Aegon Bank.

Internal Audit Nederland (IAN) is an independent centralized department at the level of Aegon Nederland. The Internal Audit Nederland Manual and the Aegon Nederland Governance Guide help to ensure that the internal audit function meets the governance principles. The role, responsibilities, mandate and scope of IAN's activities are also reflected in the Audit Charter. The Audit Manual states that independent auditors are not allowed to have any operational responsibilities within the first line of defense. It also states that the director of Internal Audit Nederland reports to the CEO of Aegon Nederland and the CEO of Aegon Bank and has a reporting line to the chairperson of the supervisory board's Risk & Audit Committee of both Aegon Nederland and Aegon Bank.

Internal Audit Nederland has regular contact and consultations with the supervisory board's Risk & Audit Committee and the external independent auditor to discuss the risk analysis and the audit plan.

Internal Audit Nederland also engages in frequent contacts with DNB to discuss risk analyses, findings and audit plans.

3.5 Pending litigation portfolio and product-related issues

Securities leasing products ("aandelenlease")

Aegon Bank is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. Current and former customers, both institutional as well as groups representing customers, initiate litigation. Also, certain groups encourage others to bring lawsuits in respect of products. Aegon Bank has established litigation policies to deal with the claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Bank will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers have been treated fairly, and to respond to matters raised by policyholders and their representatives. There is a risk that Aegon Bank will not be able to resolve some or all such matters in the manner that it expects. In certain instances, Aegon Nederland's subsidiaries have modified business practices in response to such inquiries or the findings thereof. Regulators may seek fines or other monetary penalties, or changes in the way Aegon Bank conducts its business. Aegon Bank has defended and intends to continue defending itself vigorously when Aegon Bank believes claims are without merit.

Lawsuits have been brought against providers of securities leasing products ('aandelenlease producten'). Although sales of securities leasing products ended more than a decade ago, litigation relating to these products has resurfaced. In 2016, the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that the financial institution was liable if a broker ('remisier') that advised on the sale of the institution's products was not properly licensed. In February 2020 the Court of Appeal rejected all claims of consumer interest group Platform Aandelenlease (PAL). PAL may appeal in cassation against this ruling.

In July 2016, PAL filed a class action claim against Aegon Bank regarding Aegon's securities leasing product Sprintplan. Allegations included a lack of a proper license for the brokers involved. In February 2020 the Court of Appeal rejected all claims of PAL. PAL may appeal in cassation against this ruling. Although the last Sprintplan expired more than a decade ago and there is a long history of litigation regarding security leasing products, including the two prior class actions regarding Sprintplan, it cannot be excluded that these proceedings might have a material adverse effect on Aegon Bank's results of operations or financial position. In addition, Aegon Bank is involved in claims for compensation and the cancellation or nullification of contracts concerning the Vliegwiel product, a variation on securities leasing products. Currently, proceedings are pending before the Dutch courts and the Financial Services Complaints Authority ('Klachteninstituut Financiële Dienstverlening'), with numerous cases having been initiated by Leaseproces B.V.

4 Corporate Governance

On 9 September 2009, the Dutch Banking Association (Nederlandse Vereniging van Banken) adopted the Banking Code (Code Banken) in response to a report entitled 'Restoring Trust' that was published in April 2009 by the Maas Committee. Effective as of 1 January 2010, the Banking Code lays down standards on governance, risk management, audits and remuneration. On 1 January 2015, a new Banking Code was implemented. Aegon Bank endorses the Banking Code and has devoted a great deal of attention to its implementation since 2010.

The Banking Code consists of three documents: a Social Charter, the Banking Code and Rules of Conduct. Along with the introduction of a Social Charter and updating the Banking Code, the Dutch banking industry has also taken the initiative to implement the banker's oath for all employees. The Dutch banks intend to demonstrate that everyone working in the industry is bound by the Rules of Conduct attached to this statement, for the ethical and careful practice of his or her profession. Employees have personal responsibility to comply with those Rules of Conduct and can be held accountable for non-compliance. In 2016, the Banking Code Monitoring Committee (Monitoring Commissie Code Banken) conducted an investigation into the culture and behavior within the Dutch banking industry and the embedding of the Banking Code principles throughout the industry. On 16 January 2017, the Monitoring Committee published its first report on the new Banking Code. Aegon Bank has published a document on its website which describes in which way the Banking Code has been implemented in its internal governance and business processes.

The initiative to have all bank employees take the oath is a significant tool in enhancing the new culture desired in the banking industry. A disciplinary scheme was introduced to ensure that taking the oath is not without meaning. As a result, bank employees are accountable to society as a whole. On 28 May 2015, a formal ceremony was held at Aegon Bank N.V. where all Aegon Bank and Knab employees were present to take the oath or to pledge regarding these Rules of Conduct. Since then, all new employees have taken the oath, ensuring that every employee is aware of the new culture and serving the best interests of our customers

'Customer's interests first' is the starting point for everything we do. In addition to stating this concept in our core values, actual implementation of this way of thinking in the organization is the real challenge. Aegon Bank N.V. actively involves employees to improve existing processes and/or products for the benefit of the bank's customers.

Although the Dutch Corporate Governance Code does not apply to Aegon Bank N.V., Aegon Bank N.V. has expressed the intention to follow its best practice provisions and implement them in its organization wherever possible.

Supervisory board

Composition and expertise

The supervisory board is evenly balanced, with three of its four members not being employed by Aegon. A profile has been prepared that includes detailed requirements on the expertise of the members of the supervisory board. The profile is an appendix to the Rules for the supervisory board and is also available at www.aegon.nl.

Duties and working methods

Details of the duties and working methods of the supervisory board are set out in the Rules of the supervisory board. In addition to the duties set out in the articles of association, these Rules also contain the best practice provisions in the Banking Code and the Dutch Corporate Governance Code.

In 2019, the members of the supervisory board and the management board took part in the Continuous Education program. This program covers national and international developments in the financial sector and corporate governance in general and in the financial sector in particular, ICAAP and ILAAP, the duty of care towards customers and putting customers' interests first, integrity, risk management, financial reporting and audit.

With regard to the external members of the supervisory board, the permanent education program focused and will focus on the following subjects: (i) ethics, 'moresprudentie' (combination of moral standards and prudency), moral courage and customer interest; (ii) cybersecurity; (iii) managing values, behavior and culture in the financial sector (iv) integrated risk management, including simulation (v) scenario analysis workshop (vi) workshop governance, managerial dilemmas and boardroom dynamics; (vii) deepening financial frameworks and trends in supervision (viii) deepening financial reporting.

The annual self-assessment of the supervisory board and the management board took place in December 2019. Aegon Bank N.V. will conduct the self-assessment every three years under the supervision of an external party.

The supervisory board has established the Risk, Audit and Compliance Committee and determined its composition. This committee prepares the decision-making of the supervisory board on subjects in their delegated areas. The supervisory board remains responsible for the decisions prepared by this committee.

Board under the articles of association

Composition and expertise

Aegon Bank N.V.'s Statutory Board under the articles of association consists of a CEO (Chairperson), a CFO (Financial Director) and a CRO (Risk Director) who, with their wide-ranging experience and skills, constitute a well-balanced and expert board.

Duties and working methods

The duties and working methods of the Board under the articles of association are set out in detail in the Rules of the Board Besides the duties set out in the articles of association, these rules also contain additional provisions derived from the best practice provisions in the Banking Code and the Dutch Corporate Governance Code.

Aegon Bank N.V. and Aegon Nederland N.V. put customers' interests first. The vision of Aegon Bank N.V. is that it feels responsible for raising and developing peoples' financial awareness and to provide comprehensible solutions in a genuine dialogue, thereby enabling customers to make deliberate choices for their financial future. A core value within this vision is 'customer passion'.

Oath or pledge in the financial sector

Members of the Board and members of the supervisory board took an oath or made a pledge to act to the best of their ability in the interests of the customers of the bank.

5 Corporate social responsibility

5.1 General

When the Knab brand launched in 2012, it had one goal: putting the customer first in everything. It's our mission to make our customers feel at ease when it comes to their finances. Our corporate social responsibility program revolves around initiatives that support this mission. We do so by providing additional services to both customers and non-customers that help to make conscious decisions for a healthy financial future.

Knab is aware that not everyone is able to make conscious choices. In society, people need to take care of themselves more and more and unfortunately there are many people who fail to succeed. As the corporate social responsibility of Knab is identical to the responsibility of Aegon Nederland, Knab's initiatives in respect of CSR have been aligned with those of Aegon Nederland.

5.2 Economic

Information & Knab Open

Knab provides free of charge services that help customers and non-customers make better informed financial decisions. Out extensive library offers over 800 articles about financial topics, ranging from insurances to pension plans, and from mortgages to savings. If you have a financial question, chances are you find the answer in one of our articles.

Knab also frequently organizes sessions, both online and offline, about various financial topics. These events are hosted both for customers and non-customers, retail and business. Popular topics include tax application, governmental plans ('Prinsjesdag') and expert masterclasses.

Tools & alerts

Furthermore, Knab offers various tools and alerts that can be used free of charge. These tools are made to maximize value for customers and non-customers, for instance by applying for a tax cashback ('middeling') or finding the best savings interest rate in the market ('rente alert'). Although many users of these services also turn to Knab for helping them with their daily payments and savings, they are not just a marketing tool. We provide these smart services because we strongly believe they help people make better financial decisions, and therefore should be available to everyone.

Knab also provides specific tools that can only be used by its customers. These services are designed to maximize control over their money matters, to make customers feel at ease when it comes to their finances. Examples include alerts for double debt collection, overdraw and foreign use of debit cards. These services can be used without additional costs and are included in the banking product.

5.3 Environment

Aegon believes it is very important that the objectives of the Paris Climate Agreement are actually achieved. Both from a social point of view and for the customers so that they can grow old in a pleasant environment. That is why Aegon Nederland does not want to run climate risks with the money that Aegon invests for its customers. But also by looking at offices, mobility, cooperation with other companies, and by creating awareness amongst employees, suppliers and other stakeholders. Aegon Nederland has the ambition to halve the ecological footprint of internal business operations per employee in 2030 compared to 2018. In determining the strategy for Aegon Nederland in the period 2019-2022, responsible business has been identified as one of the five transition KPI's on the management dashboard of Aegon Nederland. The responsible investment strategies, policies, instruments (screening, engagement, voting, and exclusion) and the investments are used in order to realize change.

CO2-Footprint investments

Aegon Bank has carried out an initial estimation of the CO2 footprint of its balance sheet investments in 2019. The metrics have been calculated using the methodology outlined by the Platform Carbon Accounting Financials (PCAF). The analysis covers around 71% of balance sheet assets as at 31 December 2019 (c.82% if calculated as a proportion of assets excluding cash & derivatives, which are assumed to have no associated CO2 footprint).

Due to data availability, calculations for sovereign fixed income were completed using country-level emissions and GDP. Further investigation will be required to increase overall coverage as well as to identify an appropriate methodology and corresponding data sources for other asset types currently not included in the footprint calculations. As at 31 December 2019, the absolute footprint for government bonds was estimated to be 84,500 tCO2e with a relative intensity of 360 tCO2e per million invested market value. For Corporate bonds the absolute footprint was estimated to be 70 tCO2e with a relative intensity of 4 tCO2e per million invested market value.

Mortgages are by far Aegon Bank's largest asset class, existing solely of residential mortgages. For 94% of the collateral the energy label is available. The CO2 footprint of the Aegon Bank residential mortgage portfolio has been calculated based on energy labels from the Rijksdienst voor Ondernemend Nederland and average residential energy consumption. As at 31 December 2019, the total footprint was estimated to be 215,000 tCO2e with an average energy rating label of D. The overall energy label distribution for residential mortgages is as follows:

A	B	C	D	E	F	G
16%	15%	30%	10%	9%	10%	11%

5.4 Social

During the 'Week van het Geld' (Money Week), Knab employees give lessons at primary schools to raise children's financial awareness on insurance and other financial topics. During the so called 'Volunteering Friday' Aegon Bank promotes the opportunity to do volunteering work as laid out in the CLA. The activities are all organized in nearby municipalities.

6 Outlook

6.1 Developments

2019 has been a challenging year for Aegon Bank. A lot of effort has been put in governance and risk management related projects such as project Horizon, KYC and the IRBB and credit risk roadmaps. Although a lot of progress has been made we are also aware that these projects will require continued attention throughout 2020.

Due to the integration of Aegon Bank and Knab and the reallocation to Amsterdam we requested even more flexibility from our employees. We sincerely want to thank our employees for their help and flexibility. In our new Amsterdam office we feel the energy of the two combined brands committed to make our customers feel at ease when it comes to their finances, each and every day. We therefore like to take the opportunity to thank our customers as well.

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

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

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

Finally, economic conditions and the situation in the financial markets are driving an increased focus on cost efficiency in our markets. All these trends require Aegon Bank to deliver enhanced performance for all our stakeholders at reduced expense.

6.2 Post reporting date events and expectations

Since January 2020, the Coronavirus disease (COVID-19) outbreak is causing significant disruption to society, impacting our customers, employees, suppliers and the operations of Knab in general. The health and wellbeing of our customers and employees is our foremost concern.

In order to continue to serve our customers the best we can, Knab has invoked its business continuity plans, which involves working from remote locations to help ensure the safety and well-being of its staff, as well as its capability to support its customers and maintain its business operations.

As a digital bank, the outbreak of COVID-19 has had little direct impact on customer experience in daily use of Knab product and services so far. Our NPS is a good indicator of our service levels and remains high throughout the Corona crisis. We are extremely proud of our employees, who in these difficult circumstances truly demonstrate what Knab stands for. They are agile in adapting to the new reality, while remaining customer centric, flexible, reliable and entrepreneurial.

In times like these, it is of the utmost importance to show our added value to our customers. To make sure our customers feel at ease when it comes to their finances. We keep doing what we do best: inform our clients, provide excellent support and help them find their way in the sometimes confusing tangle of rules and opportunities. We provide them with useful articles, easy instruction videos, personal messages and the best human service.

The outbreak of COVID-19 has significantly increased uncertainty and volatility in financial markets. Governments and central banks worldwide are responding to this crisis with aid packages and have further increased quantitative easing. At the date of this report the depth and length of this crisis is unknown, and its impact on the economy and as such how customer behavior will develop over time. As our customers are and have been impacted by the crisis, we expect to see higher outflows of savings deposits during 2020.

Management of Knab is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its impact on the bank. The most significant risks Knab faces are related to credit risk, liquidity risk and interest rates risk. In note 29, Events after the reporting date, further information on the financial impact of COVID-19 has been disclosed.

Amsterdam, 15 April 2020

Board under the articles of association
Nadine Klokke
Mike de Boer
Ebbe Negenman

Report of the supervisory board

Report of the supervisory board

Duties of the supervisory board

The responsibility of the supervisory board is to supervise the general affairs of Aegon Bank N.V., the conduct of and the policies pursued by the management board. It also acts as sparring partner for the management board.

In order to fulfil its duties the supervisory board's regular agenda items include among other things strategy, financial performance and reporting, capital and liquidity requirements, operations, risk management, compliance, technology, innovation, customer satisfaction, duty of care and employee engagement.

Composition of the supervisory board

The members of the supervisory board are Paul de Kroon, Gabrielle Reijnen, Willem Horstmann and Han Gerrits. Mr De Kroon is the new chairperson and Mr Gerrits is member of the supervisory board with a focus on innovation and IT. Both started as from 5 December 2019. The former chairperson, Mr. J. Vink, has resigned as of the same date after 12 years in that role.

Mr De Kroon, Ms Reijnen and Mr Gerrits are independent external supervisory board members. Mr Horstmann is the CRO of Aegon Nederland N.V.

Meetings

Besides regular bilateral meeting the supervisory board met eleven times in 2019. During the regular quarterly meetings, recurring topics like strategy, capital, risk and compliance, finance, remuneration, KYC, Project One, governance, consumer loan platforms, credit risk, DNB instruction, IT and Brexit were discussed. At each supervisory board meeting an update on major projects was provided. These projects were related to matters including Risk Management (Project Horizon, IFRS9, Project One). The supervisory board monitored these important and complex projects closely. Project Horizon has been finished mid-2019. Apart from the regular meetings, additional supervisory board meetings were held regarding IRRBB and Data, Project One, consumer loan platforms, DNB topics and self-assessment.

In 2019, the supervisory board also took part in its continuous education program. This continuous program covered subjects such as Strategy, Risk Management including risk modelling, SREP, ICAAP, ILAAP, Corporate Governance, Consumer Loan Platforms, the implications of duty of care to all stakeholders and monitoring the integrity of the institution and all involved.

Committees

Risk, audit and compliance

The Risk, Audit and Compliance Committee (RAC) is made up of Ms Reijnen (chairperson) and Mr Horstmann. Its mandate is to do the preparatory work for the supervision of the management board in terms of the implementation, maintenance and operation of the company's risk management systems and risk appetite. This Committee also monitors compliance with laws and regulations and with the procedures for preparing and adopting the financial statements. The RAC met five times in 2019.

Remuneration

Aegon Bank N.V. is a licensed financial service provider, which is significant in terms of its size, internal organization and the nature, scope and complexity of its activities. The supervisory board ensures that the remuneration policy is in line with the principles as laid down in the Regulation on Sound Remuneration Policies under the Financial Supervision Act 2011, the Banking Code, the Global Remuneration Framework of Aegon N.V. and the Aegon Nederland Remuneration Policy.

Aegon Bank N.V. has a variable pay system in place for the management board. The variable component depends on a mix of financial and non-financial indicators in which the "Loyal Customer" target weighs heavily. Balanced targets are set in terms of customers, risk management, shareholders, and staff. The variable pay system complies with the standards set by the Banking Code. The size of the variable pay component mitigates the risk of inappropriate pay-induced conduct. However, after 2019 the variable pay system for the management board of Aegon Bank N.V. will be abolished.

The three external supervisory board Members are paid an aggregate fee of EUR 123 thousand per year. The Aegon member does not receive an additional fee for his work as supervisory member at Aegon Bank N.V.

Work of the supervisory board

Due to its growth, Aegon Bank N.V. has become an increasingly significant player within the Dutch and European banking systems and believes that its responsibilities regarding gaining and maintaining confidence in the banking sector as a whole should grow at the same pace. In view of this growth, Aegon Bank N.V. is very much aware that its Risk Management and Risk Governance need to develop accordingly in order to sufficiently facilitate being in control over new and expanded processes and activities. Therefore, within the management board and supervisory board of Aegon Bank N.V., there is a strong sense of urgency to further strengthen Aegon Banks process of risk control and being compliant with the laws and other relevant regulations. The supervisory board is closely involved in monitoring the steps taken by the management board regarding the implementation of the various "in control" projects (current and newly initiated) and the strengthening of the Risk Management organization. These projects continued during 2019.

The annual self-assessment of the supervisory board took place in December 2019. As stated in the Banking Code, this assessment is performed once every three years under the supervision of an external party. This time under the external supervision of KPMG.

The subjects reviewed in the self-assessment included the performance of the supervisory board, the commitment of the individual board members, the culture within the supervisory board and its relationship with the management board, growth and commercial opportunities of the bank within the strategy of Aegon Nederland. Further attention was given to IT and innovation and the relationship between the supervisory board in its new composition and the Dutch Central Bank. The supervisory board is of the opinion that its current set up is sufficiently objective and independent. The supervisory board and the Continuous Education Program were also assessed and found to be positive.

The supervisory board appreciates 2019 has been a very demanding year for our staff, including the management board. We would like to thank the whole team for navigating the complexities of the rapidly changing environment in which the bank operates, whilst keeping its focus on serving the bank's customers and other stakeholders well, with a distinctly human approach.

Amsterdam, 15 April 2020

Paul de Kroon
Gabrielle Reijnen
Willem Horstmann
Han Gerrits

Consolidated financial statements 2019 of Aegon Bank N.V.

Consolidated statement of financial position

for the year ended 31 December 2019

Amounts in EUR thousand	Note	31-12-2019	31-12-2018
Assets			
Cash	5	1.904.003	1.268.659
Amounts due from banks	6	115.086	95.899
Mortgage loans and other loans	7	12.608.802	11.155.163
Financial assets measured at fair value through other comprehensive income	8	1.062.191	1.314.614
Derivatives	9	159.763	214.897
Other assets and receivables	10	68.643	90.814
Total assets		**15.918.489**	**14.140.045**
Equity and liabilities			
Savings deposits	11	11.535.813	10.585.775
Borrowings	12	2.730.934	2.243.797
Derivatives	9	561.575	347.822
Net deferred tax liabilities	13	74.579	67.301
Provisions	14	10.504	10.145
Other liabilities and accruals	15	266.660	249.587
Total liabilities		**15.180.066**	**13.504.426**
Equity	16	738.423	635.619
Total equity and liabilities		**15.918.489**	**14.140.045**

Consolidated income statement

for the year ended 31 December 2019

Amounts in EUR thousand	Note	2019	2018
Income			
Interest income calculated using the effective interest method	17.1	392.888	338.524
Other interest income	17.1	-	500
Interest expense calculated using the effective interest method	17.2	-86.236	-85.950
Other interest expense	17.2	-67.888	-61.350
Net interest income		**238.764**	**191.724**
Fee and commission income	18.1	17.292	12.523
Fee and commission expense	18.2	-1.886	-1.739
Net fee and commission income		**15.406**	**10.784**
Result from financial transactions	19	9.759	-12.489
Impairment losses	21	-69.089	-48.388
Total income		**194.839**	**141.631**
Expenses			
Employee expenses	20.1	24.872	22.971
Other operating expenses	20.2	130.739	121.138
Total expenses		**155.611**	**144.109**
Income / (loss) before tax		**39.227**	**-2.478**
Income tax	22	-12.598	8.173
Net income		**26.629**	**5.695**

Consolidated statement of comprehensive income

for the year ended 31 December 2019

Amounts in EUR thousand	2019	2018
Net income	**26.629**	**5.695**
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Gains / (losses) on financial assets measured at FVOCI	2.333	1.153
Gains / (losses) transferred to the income statement on disposal of financial assets measured at FVOCI	-502	-10.104
Aggregate tax effect of items recognized in other comprehensive income / (loss)	-180	2.238
Other		
Other comprehensive income for the year	**1.650**	**-6.713**
Total comprehensive income	**28.279**	**-1.018**
Total comprehensive income attributable to the parent company	**28.279**	**-1.018**

Aegon Bank does not have financial assets measured at FVOCI without recycling per 31 December 2019. All items in comprehensive income may be reclassified subsequently to profit or loss. Total comprehensive income is fully attributable to Aegon Nederland N.V., the parent company of Aegon Bank N.V..

Consolidated statement of changes in equity

for the year ended 31 December 2019

Amounts in EUR thousand **2019**	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**401.751**	**179.221**	**7.710**	**9.500**	**635.619**
Net income / (loss) recognized in the income statement	-	-	26.629	-	-	26.629
Other comprehensive income / (loss)	-	-	-	1.650	-	1.650
Total comprehensive income / (loss)	**-**	**-**	**26.629**	**1.650**	**-**	**28.279**
Capital injection	-	75.000	-	-	-	75.000
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**476.751**	**205.375**	**9.360**	**9.500**	**738.423**

2018	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**351.751**	**181.724**	**14.789**	**9.500**	**595.200**
Effect of change in accounting policies[2]			-7.723	-366		-8.089
Restated balance as at January 1	**37.437**	**351.751**	**174.001**	**14.423**	**9.500**	**587.111**
Net income / (loss) recognized in the income statement	-	-	5.695	-	-	5.695
Other comprehensive income / (loss)	-	-	-	-6.713	-	-6.713
Total comprehensive income / (loss)	**-**	**-**	**5.695**	**-6.713**	**-**	**-1.018**
Capital injection	-	50.000	-	-	-	50.000
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**401.751**	**179.221**	**7.710**	**9.500**	**635.619**

[2] **Effect of change in accounting policies;** Aegon Bank has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements.

Consolidated cash flow statement

for the year ended 31 December 2019

Amounts in EUR thousand	2019	2018
Income / (loss) before tax	**39.227**	**-2.478**
Adjustments for:		
- Result from financial transactions	-9.759	11.239
- Amortization and depreciation	75.933	86.540
- Impairment losses	69.089	48.388
- Additions to provisions	421	7.252
- Tax (paid) / received	-27.060	-25.335
Changes in:		
- Saving deposits	950.038	1.018.277
- Other assets and receivables	22.170	-10.069
- Other liabilities and accruals	17.073	-8.511
Purchase of loans and other receivables	-2.925.828	-2.489.685
Sale and redemption of loans and other receivables	1.667.047	1.374.985
Purchase of financial assets and liabilities at FVPL	270	172
Sale of financial assets and liabilities at FVPL	-33.078	170.438
Purchase of financial assets measured at FVOCI	-	-143.292
Sale and redemption of financial assets measured at FVOCI	251.125	417.669
Net cash flows from / (used in) operating activities	**96.670**	**455.589**

	2019	2018
Issuance of SNP notes	497.146	-
Redemption of Saecure notes	-	-746.111
Dividends paid on participations	-475	-475
Increase in group loans relating to collateral	-13.810	13.810
Capital injection	75.000	50.000
Net cash flows from financing activities	**557.861**	**-682.776**
Net increase / (decrease) in cash and cash equivalents	**654.531**	**-227.187**
Cash and cash equivalents at the beginning of the year	**1.364.558**	**1.591.745**
Cash and cash equivalents at the end of the year	**2.019.089**	**1.364.558**
Cash	1.904.003	1.268.659
Amounts due from banks	115.086	95.899
Total	**2.019.089**	**1.364.558**

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

Amounts in EUR thousand	2019	2018
Interest received	**468.820**	**425.564**
Interest income calculated using the effective interest method	468.820	425.064
Other interest income	-	500
Interest paid	**154.124**	**147.300**
Interest expenses calculated using the effective interest method	86.236	85.950
Other interest expenses	67.888	61.350

Reconciliation of liabilities arising from financing activities

In 2019 and 2018 the net cash flows from financing activities related to liabilities include the increase in long-term borrowings due to the issuance of the Senior Non Preferred notes in June 2019 and a decrease due to the redemption of Saecure notes in February 2018. In 2019 Aegon Bank received a capital injection of EUR 75 million (2018 EUR 50 million). These movements are equity movements and are included in note 16 ‘Equity’. The carrying value of all balance sheet items related to financing activities are measured at amortized cost, therefore there are no effects from fair value movements or any other movements. No dividends were paid to the parent company in either 2018 or 2019.

Notes to the Consolidated financial statements

Notes to the consolidated financial statements

1. General information

Aegon Bank N.V. ('Aegon Bank'), incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law registrated under number 30100799 at the Chamber of Commerce in Amsterdam, under its registered address at Thomas R. Malthusstraat 1-3, 1066 JR Amsterdam. Aegon Bank is a wholly-owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'), established in The Hague. Aegon Bank's ultimate holding company is Aegon N.V. in The Hague.

Aegon Bank N.V. has one operation segment that operates using the brands Aegon Bank and Knab.

Aegon Bank N.V. and its group companies specialize in developing, selling and servicing savings and investment products.

2 Significant accounting policies

In 2018, IFRS 9 was implemented by Aegon Bank. Aegon Bank has opted not to restate the 2017 comparative figures. As a consequence the movement schedules for the year 2018 show the opening balance based on IAS 39 and the IFRS 9 first implementation impact. The total remeasurement loss, net of tax, of EUR 8.1 million was recognized in opening reserves at 1 January 2018, in the revaluation reserves and retained earnings. The following table shows the impact which is divided into the impact on the retained earnings and the impact on the revaluation reserves

	2018 impact opening balance
Impact on retained earnings	
Impact of higher provision consumer loans	-10.803
Impact of higher provision SME loans	-224
Impact of higher provision debt securities	-1.116
Impact of lower provision mortgage loans	242
Impact of realised result due to reclassifications	1.604
Total impact on retained earnings	**-10.297**
Tax effect	2.574
Total impact on retained earnings after tax	**-7.723**

	2018 impact opening balance
Impact on revaluation reserves	
Impact of higher provision debt securities	1.116
Impact of realised result due to reclassifications	-1.604
Total impact on revaluation reserves	**-488**
Tax effect	122
Total impact on revaluation reserves after tax	**-366**
Total impact on equity after tax	**-8.089**

2.1. Presentation

2.1.1. Basis of presentation

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

The preparation of financial statements in conformity with EU-IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, impairments, income taxes and the potential effects of resolving litigation matters. Aegon Bank has elected to continue to apply the macro fair value hedge accounting requirements of IAS 39 on adoption of IFRS 9. As such, fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) 'carve out' of IFRS is applied. Details are provided in note 2.10 ' Derivatives and hedging strategy' and note 9 'Derivatives'.

The consolidated financial statements have been prepared in accordance with the historical cost convention, as modified for financial assets measured at fair value through other comprehensive income (FVOCI), financial assets at fair value through profit or loss (FVPL) and derivatives. Information on the standards and interpretations that were adopted in 2019 is provided below. The consolidated financial statements are prepared in euros and all values are rounded to the nearest thousand except where otherwise indicated. Rounding differences may therefore exist. All ratios and variances are calculated using the underlying amount rather than the rounded amount.

The consolidated financial statements of Aegon Bank N.V. were approved by the management board and by the supervisory Board on 15 April 2020. The financial statements were brought forward at the Annual General Meeting of Shareholders on 15 April 2020 for adoption. The shareholders' meeting can decide to not adopt the financial statements but cannot amend them.

2.1.2. Continuity

Management has concluded that the organization has the resources to continue the business for the foreseeable future. Management is not aware of any material uncertainties which could lead to uncertainty regarding the continuity of the business. The financial statements are therefore based on the assumption that the organization will continue its business.

Specifically we have assed the uncertainties associated with the COVID-19. We believe that based on current insights, no material uncertainty relating to going concern exist and therefore the going concern assumption used in preparing the financial statements is appropriate. We refer to note 29 'Events after the statement of financial position date' for the assessment.

2.1.3. Adoption of new EU-IFRS accounting standards

New standards and amendments to existing standards become effective at the date specified by EU-IFRS, however companies may be allowed to opt for an earlier adoption date. In 2019, the following amendments to existing standards issued by the IASB became mandatory:

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

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

Interest rate benchmark reform

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

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

2.1.4. Future adoption of new EU-IFRS accounting standards

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

Accounting standard/ amendment / interpretation	IASB effective date	Endorsed by EU	Early adoption by the entity	Impact for the entity
IFRS 17 Insurance contracts	January 1, 2023	Not yet	No	Low
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	Not yet	No	Low
Amendment to IFRS 3 Business Combinations	January 1, 2020	Not yet	No	Low
Amendments to IAS 1 and IAS 8: Definition of Material	January 1, 2020	Not yet	No	Low

2.2. Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are the fair value of assets and liabilities and the determination of impairment allowances. Although the estimates are based on careful assessment by management of current events and actions, actual results may differ from these estimates. Refer to note 3 for more information.

2.3. Basis of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of Aegon Bank and its subsidiaries. Subsidiaries (including structured entities) are entities over which Aegon Bank has control. Aegon Bank controls an entity when Aegon Bank is exposed to, or has rights to variable returns from its involvement with the entity and it has the ability to affect those returns through its power over the entity.

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

The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the accounting principles of Aegon Bank, which is consistent with IFRS. Transactions between subsidiaries of Aegon Bank are eliminated. Intra-group losses may indicate an impairment that requires recognition in the consolidated financial statements. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the share of Aegon Bank in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair values of the assets, liabilities and contingent liabilities, acquired in the business combination, have been determined provisionally, adjustments to these values, resulting from the emergence of new evidence of facts and circumstances that existed as of the acquisition date within twelve months after the acquisition date, are made against goodwill. Aegon Bank recognized contingent considerations either as a provision or as a financial liability depending on the characteristics. Contingent considerations recognized as provisions are discounted and the unwinding is recognized in the income statement as an interest expense. Any changes in the estimated value of contingent considerations given in a business combination are recognized in the income statement. Contingent considerations recognized as financial liabilities are measured at fair value through profit or loss.

The identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

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

2.4. Foreign exchange translation

Aegon Bank's financial statements are presented in euros, which is Aegon Bank's functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate using the exchange rate prevailing at the date of the transaction. Aegon Bank does have investments in group entities of which the functional currency is not the euro.

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

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

2.5. Offsetting of assets and liabilities

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

2.6. Cash

Cash comprises cash and balances with DNB which are immediately payable on demand. These are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. This item is stated at amortized cost. The initial valuation of this item is fair value.

2.7. Amounts due from banks

Amounts due from banks comprise credit balances in current accounts and receivables due from banks. These are short-term, highly liquid investments which are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. This item is stated at amortized cost. The initial valuation of this item is fair value.

2.8. Financial assets

2.8.1. Initial recognition and measurement

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

At initial recognition, Aegon Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not measured at fair value through profit or loss (FVPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs for a financial asset or financial liability measured at FVPL are directly recorded in the income statement. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), as described in note 3.5, which results in an accounting loss being recognized in the income statement when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, Aegon Bank recognizes the difference as follows: When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level I input), or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss. In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

2.8.2. Classification and subsequent measurement

Aegon Bank classifies its financial assets in the following measurement categories:

- Amortized cost (AC);
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVPL)

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the gross carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties of the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that are credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

The classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- Aegon Bank's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, Aegon Bank classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Interest income calculated using the effective interest method' using the effective interest rate method.
- Fair value through other comprehensive income ('FVOCI'): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversals, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI to profit or loss and recognized in 'Result from financial transactions'. Interest income from these financial assets is included in 'Interest income calculated using the effective interest method' using the effective interest rate method.
- Fair value through profit or loss ('FVPL'): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Result from financial transactions' in the period in which it arises. Interest income from these financial assets is included in 'Other interest income'.

Business model

The business models reflects how Aegon Bank manages the assets in order to generate cash flows. That is, whether Aegon Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by Aegon Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely payment of principal and interest ('SPPI')

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and cash flows from the sale of the asset, Aegon Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, Aegon Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Aegon Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective. That is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares. Aegon Bank subsequently measures all equity investments at FVPL. Gains and losses on equity investments at FVPL are included in the 'Result from financial transactions' line in the consolidated income statement.

Impairment

Aegon Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. Aegon Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In line with regulatory requirements, Aegon has used the low credit risk exemption for debt securities, cash, amounts due from banks and other receivables. Securities that have a credit rating which responds with 'investment grade' (rating 'BBB' or higher) are considered as having low credit risk. As such, external and internal credit ratings are used respectively for these assets to assess whether a significant increase in credit risk has occurred. Note 4.4.4 provides more detail of how the expected credit loss allowance is measured.

Modification of loans

Aegon Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, Aegon Bank assesses whether or not the new terms are substantially different from the original terms. Aegon Bank does this by considering, amongst others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Insertion of collateral, or other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, Aegon Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, Aegon Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and Aegon Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 4.4.10.

2.8.3. Derecognition other than on a modification

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

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

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

2.8.4. Collateral

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

2.9. Financial liabilities

2.9.1. Classification and subsequent measurement

Financial liabilities are classified and subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. The latter classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading book) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss. Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, are recognized as a financial liability for the consideration received for the transfer. In subsequent periods, Aegon Bank recognizes any expense incurred on the financial liability, Financial guarantee contracts and loan commitments.

2.9.2. Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between Aegon Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

2.10. Derivatives and hedging strategy

2.10.1. Definition

Derivatives are financial instruments of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. Per 1 January 2018, under IFRS 9 these embedded derivatives are bifurcated only when the host contract is not an asset within the scope of IFRS 9. Bifurcated derivatives are accounted for separately from the host contract at FVPL.

When the host contract is an asset within the scope of IFRS 9 the embedded derivative is not bifurcated and the contractual cash flows are assessed in their entirety.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

2.10.2. Measurement

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

2.10.3. Hedge accounting

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

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item. Aegon Bank has elected to continue to apply the hedge accounting requirements of IAS 39 for macro fair value hedges (EU 'carve out') on adoption of IFRS 9.

Aegon Bank currently applies hedge accounting for fair value hedges.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the profit and loss account, together with fair value adjustments of the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is amortized through the profit and loss account over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

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

At the inception of the hedging relationship Aegon Bank documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. Aegon Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Aegon Bank holds a portfolio of long-term fixed rate mortgages and therefore is exposed to changes in fair value due to movements in market interest rates. Aegon Bank manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by Aegon Bank. This hedging strategy is applied to the portion of exposure that is not naturally offset against matching positions held by Aegon Bank. Changes in fair value of the long-term fixed rate mortgages arising from changes in interest rate are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

Aegon Bank establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are:

- differences between the expected and actual volume of prepayments, as Aegon Bank hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in the discounting between the hedged item and the hedging instrument, as cash collateralized interest rate swaps are discounted using Overnight Indexed Swaps (OIS) discount curves, which are not applied to the fixed rate mortgages; and
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

Aegon Bank manages the interest rate risk arising from fixed rate mortgages by entering into interest rate swaps on a monthly basis. The exposure from this portfolio frequently changes due to new loans originated, contractual repayments and early prepayments made by customers in each period. As a result, Aegon Bank adopts a dynamic hedging strategy (sometime referred to as a 'macro' or 'portfolio' hedge) to hedge the exposure profile by closing and entering into new swap agreements at each month-end. Aegon Bank uses the portfolio fair value hedge of interest rate risk to recognize fair value changes related to changes in interest rate risk in the mortgage portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in fair value of the interest rate swaps alone. For more detailed information on Aegon Bank's hedge accounting and strategies please refer to note 9 'Derivatives'.

2.11. Tax assets and liabilities

Tax assets and liabilities are amounts payable to and receivable from Aegon N.V., since Aegon N.V. is the head of the tax group.

2.11.1. Current tax assets and liabilities

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

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

2.11.2. Deferred tax assets and liabilities

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

Deferred tax assets and liabilities are reviewed at each reporting period and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Aegon Bank's deferred tax positions periodically to determine if it is probable that the assets will be realized. Periodic reviews include, amongst other things, the nature and amount of the taxable income and deductible expenses, the expected timing of when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These opportunities are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectations of

Aegon Bank concerning the manner of recovery or settlement.

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

2.12. Other assets and receivables

Other assets and receivables include trade and other receivables and prepaid expenses. Other assets and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.13. Savings deposits

Savings deposits are initially recognized at fair value and subsequently measured at amortized cost. Accrued interest is recognized in the consolidated statement of financial position under 'other liabilities and accruals'. Saving deposits are derecognized when extinguished.

2.14. Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. They are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are derecognized when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

2.15. Provisions

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

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

2.16. Other liabilities and accruals

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

2.17. Equity

Share capital is stated at par value. The share premium reserve, where applicable, relates to capital contributions which have occurred since incorporation without issuing new shares.

The revaluation reserves comprise unrealized gains and losses on financial assets measured at FVOCI, net of tax. The revaluation reserves also include the loss allowance recognized for financial assets measured at FVOCI. Upon sale of financial assets measured at FVOCI, the realized result is recognized through the income statement.

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

Based on their specific characteristics the Knab client participations issued by Aegon Bank qualify as tier 1 capital under the applicable banking regulations. Due to the nature of the participation, the instrument also qualifies as equity under IFRS. In line with the treatment as equity the corresponding interest charges and discount on the fee are treated as dividend in the consolidated statement of changes in equity. The dividend is shown on a net basis. This includes the deducted dividend tax on the discount and the interest.

2.18. Contingent assets and liabilities

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

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

2.19. Interest income and expense (and related fees)

Interest income generated by interest-bearing financial assets, including mortgages, loans and bonds, is recognized when the right to receive interest arises. Interest income is calculated according to the effective interest rate method. Interest charges include interest expense on loans and other borrowings. Interest expense on loans and other borrowings carried at amortized cost is recognized in the income statement using the effective interest method. Fee and commission income that form an integral part of the effective return on a financial asset or liability is recognized as an adjustment to the effective interest rate of the financial instrument.

2.20. Fee and commission income and expense

Fee and commission income mainly comprises fees paid by third parties for services performed. Management fees and commission income from asset management, investment funds and sales activities are recognized as revenue in the period when the services were delivered or the sales were made.

2.21. Result from financial transactions

Results from financial transactions include:

Realized gains and losses on financial investments

Gains and losses on financial investments include realized gains and losses on financial assets, other than those classified as at fair value through profit or loss.

Net fair value change of derivatives

All changes in fair value of derivatives are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.

2.22. Employee expenses and other operating expenses

Employee expenses and other administration expenses incurred are allocated to the period to which they relate. Salaries, social security and pension contributions for staff employed by Aegon Nederland are recharged to Aegon Bank as services rendered to Aegon Bank. Provisions for retirement plans and other benefits payable to staff of Aegon Nederland are recognized in the financial statements of Aegon Nederland. Similarly, buildings and most of the other equipment used by Aegon Bank are Facilitated by Aegon Nederland and the associated costs are recharged.

2.23. Income tax

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

2.24. Events after the reporting period

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

Critical accounting estimates and judgment in applying accounting policies

3. Critical accounting estimates and judgment in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment are described in the following sections.

3.1. Determination of having control over investees

In making the determination whether Aegon Bank controls an investee, management has analyzed whether Aegon Bank has power over the investee. The outcome of this analysis depends on the following criteria:

- Purpose and design of the investee;
- What are the relevant activities (that drive the investee's returns) and how decisions about them are taken; and
- Whether rights of the investor give current ability to direct the relevant activities.

The analysis also depends on whether Aegon Bank is exposed or has rights to variable returns from its involvement with the investee and whether Aegon Bank has the ability to use its powers over the investee to affect the amount of the investor's returns.

In addition, IFRS requires that the assessment also consider Aegon Bank's relationships with other parties (who may be acting on Aegon Bank's behalf) and the possibility that the investee contains deemed separate entities that should be assessed for control separately.

In specific cases, which are described below, Aegon Bank applied judgment involving the criteria for consolidation to come to the conclusion whether Aegon Bank controls an investee.

Investment vehicle

An investment vehicle is considered to be any vehicle whose primary objective is investing and managing its assets with a view to generate superior returns.
For the purpose of determining whether Aegon Bank controls an investment vehicles in particular the overall relationship between the investor, the investee being managed and other parties involved with the investee, have been analyzed, in determining whether they are an agent or a principal:

- The scope of its decision-making authority over the investee;
- The rights held by other parties;
- The remuneration to which it is entitled in accordance with the remuneration agreement; and
- The decision maker's exposure to variability of returns from other interests that it holds in the investee.

Structured entities

A structured entity is defined in IFRS 12 as "An entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements." In these instances the tests and indicators to assess control provided by IFRS 10 have more focus on the purpose and design of the investee (with relation to the relevant activities that most significantly affect the structured entity) and the exposure to variable returns, which for structured entities lies in interests such as derivatives, and will not be focused on entities that are controlled by voting rights.

3.2. Determination of fair value and fair value hierarchy

The following is a description of the methods of Aegon Bank of determining fair value and a quantification of its exposure to assets and liabilities measured at fair value.

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

- in the principal market for the asset or liability; or

- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

To operationalize the fair value hierarchy of Aegon Bank, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modeled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

3.3. Fair value of assets and liabilities

The estimated fair values of assets and liabilities of Aegon Bank correspond with the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Aegon Bank uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. Fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when Aegon Bank determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). Therefore, unobservable inputs reflect the own assumptions of Aegon Bank about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

Aegon Bank employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized to corroborate those inputs. Further details of the validation processes are set out below.

Valuation of financial assets and liabilities is based on a pricing hierarchy, in order to maintain a controlled process that will systematically promote the use of prices from sources in which Aegon Bank has the most confidence, where the least amount of manual intervention exists and to embed consistency in the selection of price sources. Depending on asset type the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices and follows with making use of third-party pricing services or brokers.

3.3.1. Debt securities

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon Bank uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon Bank's valuation policy utilizes a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process, Aegon Bank assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

To understand the valuation methodologies used by third-party pricing services Aegon Bank reviews and monitors the applicable methodology documents of the third-party pricing services. Any changes to their methodologies are noted and reviewed for reasonableness. In addition, Aegon Bank performs in-depth reviews of prices received from third-party pricing services on a sample basis. The objective for such reviews is to demonstrate that Aegon Bank can corroborate detailed information such as assumptions, inputs and methodologies used in pricing individual securities against documented pricing methodologies. Only third-party pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third-party pricing services will often determine prices using recently reported trades for identical or similar securities. The third-party pricing service makes adjustments for the elapsed time from the trade date to the statement of financial position date to take into account available market information. Lacking recently reported trades, third-party pricing services and brokers will use modeling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate.

Periodically, Aegon Bank performs an analysis of the inputs obtained from third-party pricing services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. The asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events. Other controls and procedures over pricing received from indices, third-party pricing services, or brokers include validation checks such as exception reports which highlight significant price changes, stale prices or un-priced securities. Additionally Aegon Bank performs back testing on a sample basis. Back testing involves selecting a sample of securities trades and comparing the prices in those transactions to prices used for financial reporting. Significant variances between the price used for financial reporting and the transaction price are investigated to explain the cause of the difference.

Credit ratings are also an important consideration in the valuation of securities and are included in the internal process for determining the view of Aegon Bank of the risk associated with each security. However, Aegon Bank does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining Aegon Bank's view of the risks associated with each security.

Aegon Bank's portfolio of private placement securities (held at fair value under the classification of fair value through other comprehensive income or fair value through profit or loss) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third-party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, Aegon Bank's asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and a liquidity premium to account for the illiquid nature of these securities. The liquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the liquidity premium for private placement securities to the overall valuation is insignificant.

Aegon Bank's portfolio of debt securities can be subdivided in Sovereign debt, Residential mortgage-backed securities (RMBS), Commercial mortgage-backed securities (CMBS), Asset backed securities (ABS), and Corporate bonds. Below relevant details in the valuation methodology for these specific types of debt securities are described.

Sovereign debt
When available, Aegon Bank uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When Aegon Bank cannot make use of quoted market prices, market prices from indices or quotes from third-party pricing services or brokers are used.

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS)
Valuations of RMBS, CMBS and ABS are monitored and reviewed on a monthly basis. Valuations per asset type are based on a pricing hierarchy which uses a waterfall approach that starts with market prices from indices and follows with making use of third-party pricing services or brokers. The pricing hierarchy is dependent on the possibilities of corroboration of the market prices. If no market prices are available Aegon Bank uses internal models to determine fair value. Significant inputs included in the internal models are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Market standard models may be used to model the specific collateral composition and cash flow structure of each transaction. The most significant unobservable input is liquidity premium which is embedded in the discount rate.

Corporate bonds
Valuations of corporate bonds are monitored and reviewed on a monthly basis. The pricing hierarchy is dependent on the possibility of corroboration of market prices when available. If no market prices are available, valuations are determined by a discounted cash flow methodology using an internally calculated yield. The yield is comprised of a credit spread over a given benchmark. In all cases the benchmark is an observable input. The credit spread contains both observable and unobservable inputs. Aegon Bank starts by taking an observable credit spread from a similar bond of the given issuer, and then adjust this spread based on unobservable inputs. These unobservable inputs may

include subordination, liquidity and maturity differences.

Corroboration
On a quarterly basis level classifications are assigned to all securities. Those securities that have been priced by non-binding broker quotes are classified level II/III at first instance and are corroborated in order to assign the proper level. Aegon Bank compares the received quote against all available other evidence. If differences between the price used to measure the security and two additional prices are within a 3% difference range a level II is assigned, otherwise the security is classified as being level III. If quotes were not to be corroborated and did not seem to reflect a fair value, measures are taken to get a more reliable valuation; these securities are always classify as level III.

3.3.2. Mortgage loans, private loans and other loans

For private loans (also mentioned as Consumer loans and SME loans), fixed interest mortgage loans and other loans originated by Aegon Bank, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield and maturity characteristics. For fixed interest mortgage loans, the market rate is adjusted for expenses, prepayment rates, lapse assumptions (unobservable inputs), liquidity and credit risk (market observable inputs). An increase in expense spread, prepayment rates and/or prepayment assumptions, would decrease the fair value of the mortgage loan portfolio.

The fair value of mortgage loans, private loans and other loans that have a floating interest rate used for disclosure purposes is assumed to be approximated by their carrying amount, adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

3.3.3. Money market and other short-term investment and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk where appropriate. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

3.3.4. Derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that a typical market participant would consider and are based on observable market data when available. Models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices in active markets. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models or an independent third party. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

Aegon Bank normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[1] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Bank or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

3.3.5. Embedded derivatives in bank products

Some bifurcated derivatives embedded in Aegon Bank products are not quoted on an active market. Valuation techniques are used to determine the fair values of these derivatives. Given the dynamic and complex nature of the cash flows relating to these derivatives, their fair values are often determined by using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market prices and rates of return, equity and interest rate volatility, credit risk, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free interest rates, such as the London Inter-Bank Offered Rate (LIBOR) yield curve or the current rates on Dutch government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. As required for discounting cash flows, Aegon Bank applies a credit spread to the risk-free interest rate when computing the guarantee provisions. This own credit spread is derived from the spread used in the market for Credit Default Swaps in a reference portfolio of European life insurers (including Aegon N.V.).

3.3.6. Borrowings

Borrowings are carried at amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). For the determination of the fair value of the borrowings, the level hierarchy as described by IFRS is used. The preferred method of obtaining the fair value of the fair value option bonds is the quoted price (Level I). In case markets are less liquid or the quoted prices are not available, an internal model is used, using parameters which are market observable (Level II). Aegon Bank uses a discounted cash flow method including yield curves such as deposit rates, floating rate and 3-month swap rates. In addition Aegon Bank includes the own credit spread based on Aegon's credit default swap curve.

3.4. Fair value hierarchy

The table below provides an analysis of assets and liabilities recorded at fair value on a recurring basis by level of the fair value hierarchy.

2019	Level I	Level II	Level III	Total 2019
Assets carried at fair value				
FVOCI investments				
- Debt securities	425.459	636.732	-	1.062.191
FVPL investments				
- Derivatives	1	159.761	-	159.763
Total assets	**425.460**	**796.494**	**-**	**1.221.954**
Liabilities carried at fair value				
- Derivatives	2	558.203	-	558.205
- Derivatives (bifurcated)	-	-	3.370	3.370
Total liabilities	**2**	**558.203**	**3.370**	**561.575**

1 International Swaps and Derivatives Associations

2018	Level I	Level II	Level III	Total 2018
Assets carried at fair value				
FVOCI investments				
- Debt securities	428.397	877.089	9.128	1.314.614
FVPL investments				
- Derivatives	10	214.888	-	214.897
Total assets	**428.407**	**1.091.976**	**9.128**	**1.529.511**
Liabilities carried at fair value				
- Derivatives	-	344.465	-	344.465
- Derivatives (bifurcated)	-	-	3.357	3.357
Total liabilities	**-**	**344.465**	**3.357**	**347.822**

Movements in Level III financial instruments measured at fair value

The table below provides the movements in Level III financial instruments measured at fair value.

2019	As at 1-1-2019	Result income statement	Result OCI	Purchases	Sales	Transfers between I, II and III	As at 31-12-2019	Result year-end
Assets carried at fair value								
FVOCI investments								
- Debt securities	9.128	-	-	-	-	-9.128	-	-
Total assets	**9.128**	**-**	**-**	**-**	**-**	**-9.128**	**-**	**-**
Liabilities carried at fair value								
- Derivatives (bifurcated)	3.357	-148	-	161	-	-	3.370	-148
Total liabilities	**3.357**	**-148**	**-**	**161**	**-**	**-**	**3.370**	**-148**

2018	As at 1-1-2018	Result income statement	Result OCI	Purchases	Sales	Transfers between I, II and III	As at 31-12-2018	Result year-end
Assets carried at fair value								
FVOCI investments								
- Debt securities	10.620	37	-222	-	-1.307	-	9.128	37
Total assets	**10.620**	**37**	**-222**	**-**	**-1.307**	**-**	**9.128**	**37**
Liabilities carried at fair value								
- Derivatives (bifurcated)	2.643	542	-	172	-	-	3.357	542
Total liabilities	**2.643**	**542**	**-**	**172**	**-**	**-**	**3.357**	**542**

The total gains / (losses) in the last column relate to the total income in the financial year during which the financial instrument was held as Level III instrument.

Significant transfers between Levels I/II and Level III

There were no significant transfers between Level I and Level II of the fair value hierarchy during 2019 and 2018.

During 2019 there was one transfer from level III to level II due to improved corroboration in line with regular standard reporting procedures for an amount of EUR 9.1 million.

Significant unobservable assumptions and effect of changes in significant unobservable assumptions to reasonably possible alternatives

During 2019 there was an amount of EUR 3.4 million (2018: EUR 3.4 million) regarding Level III bifurcated embedded derivatives. To determine the fair value of the bifurcated embedded derivatives related to guarantees, a discount rate is used including own credit spread. An increase in the own credit spread results in lower valuation of the embedded derivatives, while a decrease results in a higher valuation of the embedded derivatives.

Fair value information about assets and liabilities not measured at fair value

The following table presents the carrying values and estimated fair values of assets and liabilities, excluding assets and liabilities which are carried at fair value on a recurring basis.

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term receivables and accrued interest receivable, short-term liabilities, accrued liabilities and long-term borrowings and group loans. These instruments are not included in the table below. Furthermore, for certain financial instruments disclosed in the table below, the carrying amounts reasonably approximate the disclosed fair values at year-end. Therefore the unobservable inputs regarding the fair value are listed as not applicable (-).

All of the instruments disclosed in the table are held at amortized cost.

2019	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	10.659.239	11.219.010	-	-	11.219.010	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	1.473.599	1.548.121	-	-	1.548.121	Discounted cash flow	prepayments and discount spreads (including cost of capital, RMBS financing spread, expect default)
Other loans	475.965	476.056	-	476.056	-	Discounted cash flow	n.a.
Liabilities							
Savings deposits	11.535.813	11.910.158	-	-	11.910.158	Discounted cash flow	liquidity premium

Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Bank and are not reasonably available.

2018	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	9.619.701	10.079.628	-	-	10.079.628	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	1.316.461	1.381.314	-	-	1.381.314	Discounted cash flow	prepayments and discount spreads (including cost of capital, RMBS financing spread, expect default)
Other loans	219.001	219.087	-	219.087	-	Discounted cash flow	n.a.
Liabilities							
Savings deposits	10.585.775	10.653.131	-	-	10.653.131	Discounted cash flow	Liquidity premium .

Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Bank and are not reasonably available.

3.5. Measurement of the expected credit loss allowance

The expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4.4.7, which also sets out key sensitivities of the ECL to changes in these elements.

Risk management

4. Risk management

4.1. Governance and risk management structure

The management board of Aegon Bank is responsible for Aegon Bank's risk management and risk control system. The management board reports to the shareholder and the regulator in accordance with the terms of its license. One member of the executive board of parent company Aegon Nederland is also member of the supervisory board of Aegon Bank. The supervisory board is accountable for the risk management of the company. The other three members of the supervisory board are independent of Aegon Bank and Aegon Nederland.

Aegon Bank operates a risk control system consistent with Aegon N.V.'s Internal Control Framework. The management board and management recognize the importance of efficient and effective risk management.

As a provider of bank products, Aegon Bank is exposed to a variety of risks, both financial and non-financial risk. The main objective of Aegon Bank's risk management system is to protect its stakeholders, including its shareholder, customers and employees, from events that may hinder the ongoing achievement of financial goals. These main objectives are in line with the bankers oath.

Aegon Bank manages risks in accordance with the principles and guidelines adopted by Aegon N.V. and Aegon Nederland. Aegon Bank operates a solid risk management system geared to controlling local operations and events.

Aegon Bank's financial risk exposure arises from its normal conduct of business, a key component of which is to invest savings at its own risk and expense. Fluctuations in the international money and capital markets have an impact on the value of investments and liabilities and accordingly constitute major risk components for Aegon Bank. Asset and liability management, applied by Aegon Bank to protect its statement of financial position, solvency and liquidity, plays a key role in ensuring an acceptable level of exposure to managed financial risks, such as liquidity risk, interest rate risk and credit risk.

Aegon Bank's risk management policies are aimed at optimizing and limiting its risk exposure for the different types of asset and credit rating categories in line with Aegon Bank's risk appetite. Diversification and risk spreading are the cornerstones of this policy. Limits are set for a variety of operational and financial risks and for the total financial risk exposure.

Operational risk focuses on the identification, assessment and monitoring of risks such as business risks, legal and compliance risks, financial crime risks, processing risks and system risks. Risks are assessed by using several methods, including risk and control self-assessments. Information on incidents, issues, operational losses and key risk indicators are used to determine the current risk profile and decision regarding the risk treatment. Risks, issues and action plans are monitored and periodic reporting is performed.

Besides the above mentioned instruments, controls and policy compliance are important instruments that help maintain Aegon Bank as an in control organization in the present and in the future.

The operating results and financial position can be adversely affected by natural and man-made disasters such as hurricanes, riots, fires, explosions and the risk of a pandemic (such as COVID-19). Furthermore, natural disasters, terrorism and fires could disrupt Aegon Bank's operations and could result in significant loss of property, substantial personnel losses and the destruction of company and customer information

Within these policies, Aegon Bank uses derivatives to hedge certain risks, either partly (interest rate risk) or almost fully (foreign exchange rate risk). Aegon Bank's policy on the use of derivatives specifies control, authorization, execution and monitoring requirements for the use of these instruments. The policy also specifies measures to limit counterparty credit risk when using derivatives, such as contractual requirements for the receipt and provision of collateral. See note 4.4.3.

Aegon Bank's statement of financial position is subjected to monthly stress tests involving hypothetical scenarios in accordance with a stress testing framework. Management uses the outcomes of these "what if?" scenarios to manage Aegon Bank's risks exposure and capital position. The models, scenarios and assumptions are regularly reviewed and, where necessary, updated. The effects of hypothetical financial shocks on net income and equity, the statement of financial position, solvency and liquidity are reviewed against the limits set. Adjustments are made when potential effects exceed or threaten to exceed these limits.

Finally, a capital buffer is maintained to cover unexpected potential losses in line with Aegon Bank's risk appetite and desired credit rating. The capital buffer must also meet the capital adequacy requirements set by the Dutch Central Bank in line with the Capital Requirements Directive (CRD) IV as included in the Revised Capital Requirements Directive.

4.2. Capital management and solvency

Pursuant to guidance issued by the Dutch Central Bank, the level of capital is subject to certain requirements. Aegon Bank's capital is reviewed against its on-balance sheet and off-balance sheet assets. These assets are weighted according to their risk level. The minimum total capital ratio is 8%. The table below shows the amounts at year-ends 2019 and 2018 calculated in accordance with the CRD IV requirements.

Capital management and solvency	**2019**	**2018**
Paid up capital instruments	37.437	37.437
Share premium	476.751	401.751
Retained earnings	179.222	174.001
Profit or loss attributable to owners of the parent	26.629	5.695
(-) Part of interim or year-end profit not eligible	-	-5.695
Dividend	-475	-475
Accumulated other comprehensive income	9.359	7.710
Adjustments to CET1 due to prudential filters	-1.242	-1.435
CETI Capital	**727.681**	**618.990**
Additional Tier 1 Capital	9.500	9.500
Tier 1 Capital	**737.181**	**628.490**
Part of interim or year-end profit not eligible	-	5.695
Adjustments to CET1 due to prudential filters	1.242	1.435
IFRS Capital	**738.423**	**635.619**
Risk weighted Asset	3.681.585	2.863.289
CET1 Ratio	**19,77%**	**21,62%**
Total Capital Ratio	**20,00%**	**21,90%**

4.3. Product information

4.3.1. Overview of sales and distribution channels

Aegon Bank uses a variety of distribution channels to help customers assess which products and services are appropriate for their needs. In general, all business lines use the intermediary channel, which focuses on independent brokers in different market segments in the Netherlands.

In recent years, Aegon Bank has invested heavily in its direct online channel to achieve a better digital self-service. Aegon usually distributes most of its products and services through intermediaries. Aegon Netherlands own advisory channel, Aegon Advisory, and the number of times that advice has been given to customers is growing rapidly. Distribution channels such as online and the contact centers generated leads for Aegon Advisory.

Aegon Bank uses the direct channel primarily for savings, an online channel and independent brokers to sell its products. Knab, Aegon's online bank, enables customers to make their own choices about their personal financial situation, thereby helping them to achieve their financial goals. Knab helps its customers to make smart decisions by providing them with a clear overview of their finances, and advises them pro-actively on products that can help them achieve their financial goals.

4.3.2. Overview business lines – Banking

Savings

Aegon Bank aims to achieve its vision and ambition through two labels: Aegon Bank and Knab.

Aegon Bank focuses on the 'income' and 'housing' market, together with seeking to reinforce the Aegon Netherlands-wide pensions offering. Customers increasingly need to provide for their current and future income and wealth since the government changed the rules for pension provisions.

Aegon Bank offers simple and high quality products. These include both savings products focused on security and investment products focused on a suitable risk/return profile that fits the customer's needs and risk appetite. Processes are designed in such a way as to provide the maximum benefit to customers and customer service is based on the principles of easy access, speed, first time right, convenience, insight and understanding.

Aegon Bank's focus is on customers whose income and wealth is in the middle-market, in line with Aegon Netherlands target group. Products are distributed directly to Aegon's customers. For more complex 'advice' products, independent financial advisers continue to be a very important distribution channel for Aegon Bank. Aegon Bank's activities mainly focus on 'Banksparen' products'. 'Banksparen' is a tax-deferred savings product in which amounts are deposited in a 'locked' bank account. The amount saved is available after a certain period of time for specific purposes, such as for a supplementary pension or paying off a mortgage.

Knab

Knab aims to be the most customer-oriented financial platform in the Netherlands, by informing customers about their personal financial situation and enabling them to achieve their financial goals. It reflects the core of Aegon's purpose, offering customers both insight and an overview of their finances through its financial planning tools and alerts. As an online bank Knab offers payment-accounts, savings and a basic investment product.

4.3.3. Regulation and supervision

General

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

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

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

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

Financial supervision of credit institutions

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

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

CRD IV and the CRR are the European Union's translation of the Basel III accord for prudential supervision of credit institutions and investment firms. The CRR is binding for all EU member states and became effective on 1 January 2014. CRD IV is an EU directive, and is required to be implemented into local legislation. CRD IV has been implemented in the Netherlands by means of amending the Financial Supervision Act (Wet op het financieel toezicht, the 'Wft') on 1 August 2014.

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

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

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

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

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

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

4.4. The risk management approach

IFRS sensitivities

The sections below set out the estimated sensitivity of Aegon Bank's net income and equity in various scenarios. The analyses show how net income and equity would be affected by movements in each type of market risk at the reporting date. These possible changes are designated as shocks since, for determining sensitivities, they are deemed to occur suddenly.

Each sensitivity analysis sets out the extent to which a given shock could affect management's critical estimates and assessments when applying Aegon Bank's reporting policies. Market consistent assumptions are applied to the measurement of unlisted investments and obligations. Although management's short-term assumptions may change if there is a reasonable change in a risk factor, long-term assumptions are not altered unless there is evidence of a permanent change. This is reflected in the sensitivity analyses below.

The analysis of each type of market risk assumes that the exposures on the reporting date are representative of the entire year and that the shocks occur at the beginning of the year. The results of the analysis ignore risk management measures taken to cushion losses to the extent that they are not reflected in the reporting. Depending on the movements on the financial markets, these measures may include disposals of investments, changing the composition of the investment portfolio and adjusting interest rates on deposits from customers. Mitigating action by management is only taken into account to the extent that it forms part of existing policy and procedures, such as existing hedging programs and adjustments to interest rates. One-off action that requires a change in policy is ignored.

The results also ignore interactions between risk factors and they assume no changes to circumstances with respect to all other assets and liabilities. Consequently, the results of the analyses cannot be extrapolated or interpolated for smaller or larger variations, as the effects need not be linear.

The sensitivity results do not represent the outcomes that would have been achieved if risk components had been different, because the analyses are based on exposures at year-end rather than the actual exposures during the year. Nor are the sensitivity results intended as a reliable prediction of future income or equity. Furthermore the analyses do not take into account the variety of options available to management to respond to changes in the financial markets, such as reallocating portfolio assets. In addition, the sensitivities are not a reliable forecast of the impact of a possible shock on another date as the portfolio may then have a different composition. No risk management process can clearly predict future results.

4.4.1. Currency exchange rate risk

Aegon Bank faces limited currency exchange risk on exposures denominated in a currency other than the euro. Currency risk in the investment portfolios is managed using asset liability matching principles and is hedged with FX derivatives within Aegon Bank's risk appetite for foreign currency exposures.

4.4.2. Interest rate risk

Interest rate risk is an important risk type inherent to banking activities. It arises from the transformation function performed by banks: funding long-term loans with short-term deposits. Maturity and interest rate type mismatches in the bank's assets and liabilities expose the bank to the risk of changing interest rates on the money and capital markets with potential adverse impact on economic value and earnings. Interest rate risk is increased by options embedded in many of the common banking products (e.g. prepayment options on loans or early withdrawal options for term deposits).

Interest rates are an important driver in the valuation and risk of such options. The European Banking Authority requires banks 'to not only rely on the supervisory outlier test' for their capitalization (Article 25, 2017 guideline). Aegon Bank interprets this as follows: institutions should take both the supervisory outlier test and internal scenarios into account. Aegon Bank is of the opinion that it is most appropriate to capitalize on a set of scenarios. This choice is made explicitly by taking both the supervisory outlier test and internal scenarios into account. Aegon Bank has therefore chosen for a set-up where it capitalizes for a number of internal and external scenarios. The Aegon Bank specific scenarios are internally developed interest rate and CPR shock scenarios in accordance with the nature, scale and complexity of the Aegon Bank portfolio. The scenarios make the capitalization formula more transparent and allow for an explicit inclusion of the supervisory outlier test and internal scenarios. The capitalization framework and

IRRBB stress testing take into account both Economic Value of Equity at Risk and Earnings at Risk.

The maximum tolerated Price Value of a Basis Point has been set on +/-100 thousand DVO1. As per year end the historic Price Value of a Basis Point amounts to EUR 28 thousand (2018: EUR 5 thousand). At the end of 2019, the limits for both measures had not been exceeded (as in 2018). Monthly stress tests are also performed.

Interest rates at the end of each of the last five years

	2019	2018	2017	2016	2015
3-month Euribor	-0,38%	-0,31%	-0,33%	-0,32%	-0,13%
10-year Dutch government	-0,06%	0,38%	0,52%	0,35%	0,79%

The tables below show the earlier of the contractual interest rate adjustment date or maturity date of financial assets and loans.

2019	Note	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Financial assets FVOCI	8	887.771	174.421	-	-	**1.062.191**
- Mortgage loans		1.495.075	2.372.327	1.934.899	4.856.938	**10.659.239**
- Loans to private individuals and Small and Medium Enterprise loans		31.539	1.148.948	172.454	120.657	**1.473.599**
- Other loans		475.868	-	98	-	**475.965**
Total loans	7	2.002.482	3.521.275	2.107.451	4.977.595	**12.608.802**
Total financial assets and loans		**2.890.252**	**3.695.696**	**2.107.451**	**4.977.595**	**13.670.994**

2018	Note	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Financial assets FVOCI	8	1.025.659	269.660	19.295	-	**1.314.614**
- Mortgage loans		1.203.297	2.514.951	1.794.093	4.107.359	**9.619.701**
- Loans to private individuals and Small and Medium Enterprise loans		21.555	990.611	136.743	167.552	**1.316.461**
- Other loans		218.385	-	615	-	**219.001**
Total loans	7	1.443.238	3.505.563	1.931.451	4.274.911	**11.155.163**
Total financial assets and loans		**2.468.897**	**3.775.223**	**1.950.746**	**4.274.911**	**12.469.777**

The category Loans to private individuals and Small and Medium Enterprise loans consists of Small and Medium Enterprises loans for an amount of EUR 333.0 million (2018: EUR 258.3 million).

Sensitivity of interest rates

Aegon Bank's net income and equity are sensitive to changes in interest rates. Aegon Bank measures this sensitivity for its various holdings of financial assets and liabilities. Interest rate changes may cause different assets to have different effects on net income and equity. The table below shows the estimated total effect of a parallel shift in the yield curve on net income and equity.

Parallel movement of yield curve	2019		2018	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	-1.088	-10.092	-995	-14.173
Shift down 100 basis points	1.375	10.853	1.231	15.101

The sensitivity of net income for parallel shifts in the yield curves remains limited.

4.4.3. Credit risk management

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations such as the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties. Aegon Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to note 4.4.7 for more details.

Aegon Bank manages credit risk through diversification and by setting permanent and temporary exposure limits for asset categories, rating categories, sectors, countries and individual counterparties or groups. Exposures are reported and reviewed against these set limits at least once every month. Aegon Bank also applies deterministic stress scenarios (credit spread shocks) to measure the effects on its net income, equity and solvency. These effects are tested against the set limits. Where necessary, adjustments are made by reducing the exposures.

By adding consumer loans and small and medium enterprise loans to the asset mix, Aegon Bank has further diversified its assets. After an extensive analysis by experts from Aegon Asset Management, Aegon Bank decided to set limits on the maximum credit limit, and to exclude any loans from borrowers which are overdue or which have an active BKR registration. This has resulted in a highly diversified portfolio of consumer loans.

To manage concentrations of exposure to individual counterparties and groups of counterparties and encourage the spread of credit risk, Aegon Bank uses a policy of internal and external limits. Internal limits are set on the basis of the issuer's credit rating. The credit limits applied by Aegon Bank in millions of euros were as follows at the end of 2019:

2019

Credit ratings	Corporate Credit Limit Amount (mln euro)	Government backed exposure Limit Amount (mln euro)
AAA	78	360*
Aax	78	110
Ax	76	80
BBBx	50	30
BBx	0	20
Bx	0	10
CCC - CCx	0	6
Cx / Unrated	0	0

*No limits for domestic (Dutch) government bonds and Super AAA.

If a credit rate downgrade causes the credit risk to exceed a set limit, the risk is lowered to within the set limit once this becomes practically possible, with the limit being dependent on the quality of the asset in question. Any deviation from these limits will, in all cases, require the explicit approval of Aegon Bank's Executive Board.

Similar to other banks, Aegon Bank also prevents concentrations of exposure to individual counterparties and groups of counterparties by applying the 'large exposures rules' set forth in Chapter 7 of the Regulation on Solvency Requirements for Credit Risk [Regeling solvabiliteitseisen voor het kredietrisico], which in turn is based on the Prudential Rules Decree [Besluit prudentiële regels] (Sections 102-104).

4.4.4. Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

1) A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by Aegon Bank.
    a) If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 4.4.5 for a description of how Aegon Bank determines when a significant increase in credit risk has occurred.
    b) If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 4.4.6 for a description of how Aegon Bank defines credit-impaired and default.
2) Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
3) Financial instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 4.4.7 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 4.4.8 includes an explanation of how Aegon Bank has incorporated this in its ECL models.

The following diagram summarizes the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Aegon Bank employs separate models to calculate ECL on the following asset classes:

- Mortgage loans
- Consumer loans
- SME loans
- Debt securities

ECL calculations are performed on an individual basis, and therefore no grouping has been applied. Debt securities are covered by a single model because these portfolios are managed in a similar fashion. Asset classes not covered in the ECL calculations are considered to have immaterial credit risk or to be of short-term nature. Given the need to adapt the models to the different portfolio characteristics, all ECL models have different key judgments and assumptions. As such, the below paragraphs outline the key judgments and assumptions made by Aegon Bank in addressing the requirements of the Standard on a model-by-model basis. Aegon Bank has not applied the simplified approach to any of the ECL models.

4.4.5. Significant increase in credit risk (SICR)

Aegon Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

	Quantitative criteria	Qualitative criteria	Backstop criteria
Mortgage loans	Variation in Forward-in-Time Probability of Default	None	30 days past due backstop
Consumer loans and SME loans	Variation in Forward-in-Time Probability of Default	None	30 days past due backstop
Debt securities	Relative changes of rating	Watch-list approach	No other backstop applied

Quantitative criteria
For mortgage loans and consumer loans the Variation in Forward-in-Time (FiT) Probability of Default (PD) is used as a primary indicator to assess significant increase in credit risk. This method assesses whether a significant increase in credit risk has occurred based on the relative negative movements in a loan's PD.

For debt securities the relative change of the credit rating is used as primary indicator to assess significant increase in credit risk, for this purpose the CNLP credit ratings are used. The CNLP rating is a composite rating of the main rating agencies (Moody's, Standard and Poor's, Fitch). The rating agencies are using forward-looking macroeconomic factors and other available supportive information to rate a counterparty. In case no external credit rating is available to determine the composite CNLP rating, internal ratings are used.

Qualitative criteria
No secondary indicator is applied to mortgage loans and consumer loans, given that the Probability of Default variation approach has been applied. For debt securities the watch-list approach is applied as an additional qualitative criterion. The watch-list approach means instruments on the watch list are manually observed, the criteria for an instrument to move to the watch list are:

- The value either drops to 80% and below the (amortized) cost price and stays there for six months; or
- The value falls by 20% over 3 months; or
- The value falls to 60% and below the (amortized) cost price.

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all financial instruments held by Aegon Bank. In relation to debt securities, where a watchlist is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop
A backstop is applied in the mortgage loan and consumer loan portfolios to exposures considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. No backstop is applied to debt securities, given that the 30 days past due presumption is rebutted based on the default backstop being 5 days past due on these instruments.

In line with regulatory requirements, Aegon Bank has used the low credit risk exemption for debt securities in the year ended 31 December 2019. As such, external and internal credit ratings are used respectively for these assets to assess whether a significant increase in credit risk has occurred.

4.4.6. Definition of default and credit-impaired assets

Aegon Bank assesses a financial instrument to be in default or credit-impaired using the following criteria:

	Quantitative criteria	Qualitative criteria
Mortgage loans	90 days past due backstop	Foreclosure Sale at material economic loss (>1%) Distressed restructuring
Consumer loans and SME loans	90 days past due backstop	Sale at material economic loss (>1%) Distressed restructuring
Debt securities	5 days past due backstop	Rating falling to "D" (external or internal) Breach of significant covenants without reasonably supportable waiver obtained Distressed restructuring taking place Bankruptcy or an equivalent of an injunction for the obligor was filed Obligor was classified as default internally

Aegon Bank consents to a distressed restructuring of the credit obligation which is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement of principal, interest or, where relevant, fees. With regard to distressed restructuring of credit obligations, the threshold for sale at material economic loss is set at 1%.

The definition of default has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given No Cure (LGN) throughout Aegon Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months and an assessment has shown the obligor is no longer unlikely to pay. Upon curing, the instrument will transfer from Stage 3 to Stage 2 or Stage 1. The period of three months has been determined based on regulatory requirements which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

4.4.7. Measuring ECL – Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month basis (Stage 1) or lifetime basis (Stage 2/3) depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12-month PD), or over the remaining lifetime (lifetime PD) of the obligation.
- EAD is based on the amounts Aegon Bank expects to be owed at the time of default, over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD).
- Loss Given Default (LGD) represents Aegon Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is calculated for a financial instrument that results in default by summing the probabilities of all future developments which end-up in the ECL. All possible future developments are enumerated and for each future development a probability is calculated. The possibility of full prepayment is included among all possible future developments. For each possible future development the probability is estimated using statistical modelling techniques.

Expected credit losses measured on a Stage 3 lifetime basis are the discounted product of the expected amount of exposure that will default without cure, and the Loss Given No-cure ('LGN'), defined as follows:

- The expected amount that will default without cure is calculated as the current exposure amount times the sum of probabilities over possible future developments that result in default without cure. All possible future developments are enumerated and for each future development a probability is calculated. The possibility that an exposure amount is repaid by means of scheduled payments or unscheduled prepayments is included among all possible future developments. For each possible future development the probability is estimated using statistical modelling techniques.
- The LGN represents the expectation of the extent of the loss on an exposure that defaults without cure. The LGN varies by type and amount of exposure, type and amount of collateral available, the presence of other credit support, the duration of default, and the macro-economic forecast. The LGN is expressed as a percentage loss per unit of exposure at the time of default. The LGN is calculated for each future quarter.

The LGN is based on factors that impact the recoveries made post-default. These vary by product type:

- For mortgages, this is primarily based on the collateral type and projected value, the estimated recovery rate on the collateral, NHG guaranty eligibility, and savings proceeds when applicable.
- For consumer loans, LGN's are set at a product level, based on contracted debt sale agreements.
- For debt securities, LGN are estimated using a statistical modelling technique on historical recovery rate data provided by rating agencies.

Forward-looking economic information is included in determining the 12-month and lifetime ECL, as well as the lifetime PD by using a set of variables describing the state of the macro economy as input in the calculation of the LGN and the probability of default and prepayment.

4.4.8. Forward-looking information incorporated in the ECL models

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information. Aegon Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Expert judgment has also been applied in this process.

These economic variables and their associated impact on the ECL and Lifetime PD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are derived from DNB and Bloomberg. They provide an estimate of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of three years. Statistical regression analysis has been performed to understand the impact changes of these macro-economic variables historically on default rates, prepayment rates and the LGN.

Three macro-economic scenarios (upside, downside, and base) are generated, taking into account their historically observed correlation. The upside and downside scenarios are generated by applying shocks to the historical average deviance from the long term observed in the best/worst 25% of the historically observed quarters. The shocks applied correspond to the historical average deviance from the long term mean observed in the best/worst 25% of the historically observed quarters. The ECL is a weighted average of the expected credit losses in all three macro-economic scenarios, where the weighting depends on the likelihood of the scenario. The use of multiple economic scenarios ensures that the ECL represents the best estimate of expected credit loss and is not merely the credit loss in the most likely scenario.

The assessment of SICR is performed using the Lifetime PD under each of the scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3, and hence whether 12-month or lifetime ECL should be recorded.

Following this assessment, Aegon Bank measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability-weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Aegon Bank considers these forecasts to represent its best estimate of the possible outcomes.

Economic variable assumptions

The most significant forward looking considerations used for the ECL estimate as at 31 December 2019 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Mortgage loans	House price index Unemployment rate
Consumer loans	Consumer price index Unemployment rate
SME loans	Credit card debt-income ratio Unemployment rate
Debt securities	GDP Unemployment rate

The weightings assigned to each economic scenario were as follows:

	Base	**Upside**	**Downside**
At 31 December 2019	45%	29%	26%

	Base	**Upside**	**Downside**
At 31 December 2018	50%	25%	25%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

The most significant assumptions affecting the ECL allowance are as follows:

<u>Mortgage loans portfolio</u>

- House price index, given the indication this provides of mortgage collateral valuations; and
- Unemployment rate, given the impact this has on obligors' ability to meet their contractual repayments.

Set out below are the changes to the ECL that would result from reasonably possible changes in these parameters from the actual assumptions used in Aegon Bank's economic variable assumptions (for example, the impact on ECL of increasing the estimated unemployment rate by 1% in each of the base, upside, and downside):

2019	**Stress scenario**	
	-10%	+10%
House price index	1.162	-228

	Stress scenario	
	-1%	+1%
Unemployment rate	-6	13

2018	**Stress scenario**	
	-10%	+10%
House price index	898	-179

	Stress scenario	
	-1%	+1%
Unemployment rate	-23	107

Consumer loans portfolio

- GDP, given the impact it has on the general economic environment and the indication this provides of obligors' ability to meet their contractual repayments; and
- Interest rates, given the indication this provides of the general lending environment and obligors' ability to meet their contractual repayments.

Set out below are the changes to the ECL that would result from reasonably possible changes in these parameters from the actual assumptions used in Aegon Bank's economic variable assumptions.

2019

Auxmoney	**Stress scenario**	
	-1%	+1%
Consumer Price Index	-1.387	1.268

	Stress scenario	
	-1%	+1%
Change in Unemployment Rate	-3.536	4.160

Zopa	**Stress scenario**	
	-1%	+1%
Write-off rate for unsecured lending	-158	162

CA-CF	**Stress scenario**	
	-1%	+1%
Consumer Price Index	-179	188

	Stress scenario	
	-1%	+1%
Change in Unemployment Rate	-444	504

2018	**Stress scenario**	
	-1%	+1%
Interest rates	3.486	-3.383

	Stress scenario	
	-1%	+1%
Domestic GDP	4.070	-3.886

SME loans portfolio

- GDP, given the impact it has on the general economic environment and the indication this provides of obligors' ability to meet their contractual repayments; and
- Unemployment rate, given the impact this has on obligors' ability to meet their contractual repayments

Set out below are the changes to the ECL that would result from reasonably possible changes in these parameters from the actual assumptions used in Aegon Bank's economic variable assumptions.

2019	Stress scenario	
	-1%	+1%
Unemployment rate	-249	258

	Stress scenario	
	-1%	+1%
Credit Card Debt-Income ratio	-1.570	1.970

2018	Stress scenario	
	-1%	+1%
Unemployment rate	-282	293

	Stress scenario	
	-1%	+1%
Domestic GDP	28	-28

4.4.9. Write-off policy

Aegon Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where Aegon Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Aegon Bank may write-off financial assets that are still subject to enforcement activity. Aegon Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.4.10. Modification of financial assets

Aegon Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with the purpose of maximizing recovery. Such restructuring activities could include extended payment terms and in limited cases penalty interest arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. Aegon Bank monitors the subsequent performance of modified assets. Aegon Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for three consecutive months or more.

Aegon Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets. The number of loans within Aegon Bank's mortgage portfolio that were modified during 2019 are limited. There is no significant impact on the lifetime ECL from modifications of financial assets during 2019.

4.4.11. Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between stages due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and,
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 1 January 2019	**44**	**144**	**148**	**337**
Stage transfers	51	-33	-18	-
New financial assets originated or purchased	21	3	6	30
Changes in PD/LGD/EAD	-76	-40	22	-94
Changes to model assumptions and methodologies	821	624	205	1.650
Financial assets derecognised or redeemed during the period	-6	-13	-11	-30
Write-offs	-	-	-20	-20
Loss allowance as at 31 December 2019	**855**	**686**	**332**	**1.873**

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 1 January 2018	**149**	**360**	**418**	**927**
Stage transfers	118	-177	-22	-81
New financial assets originated or purchased	15	4	7	26
Changes in PD/LGD/EAD	-197	-57	89	-165
Changes to model assumptions and methodologies	-22	31	-255	-246
Financial assets derecognised or redeemed during the period	-19	-16	-34	-69
Write-offs	-	-1	-54	-55
Loss allowance as at 31 December 2018	**44**	**144**	**148**	**337**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**27.490**	**15.819**	**31.390**	**74.699**
Stage transfers	-6.840	32.155	40.485	65.800
New financial assets originated or purchased	12.959	7.820	5.635	26.415
Changes in PD/LGD/EAD	361	863	-40	1.183
Changes to model assumptions and methodologies	-3.688	-21.538	-14.612	-39.837
Financial assets derecognised or redeemed during the period	-14.346	-16.332	-14.080	-44.758
FX and other movements	1.351	1.295	3.018	5.664
Loss allowance as at 31 December 2019	**17.288**	**20.082**	**51.796**	**89.166**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	**18.485**	**11.141**	**16.247**	**45.872**
Stage transfers	-693	516	8.662	8.484
New financial assets originated or purchased	19.455	6.166	2.694	28.316
Changes in PD/LGD/EAD	-1.736	362	3.372	1.998
Changes to model assumptions and methodologies	-3.630	578	1.614	-1.438
Financial assets derecognised or redeemed during the period	-4.369	-2.925	-1.124	-8.418
FX and other movements	-22	-19	-75	-116
Loss allowance as at 31 December 2018	**27.490**	**15.819**	**31.390**	**74.699**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**2.652**	**3.329**	**2.222**	**8.203**
Stage transfers	-95	-1.026	11.256	10.135
New financial assets originated or purchased	3.353	809	1.484	5.646
Changes in PD/LGD/EAD	104	105	-	208
Changes to model assumptions and methodologies	1.662	2.075	1.765	5.502
Financial assets derecognised or redeemed during the period	-1.101	-1.028	-1.469	-3.598
FX and other movements	567	284	1.077	1.929
Loss allowance as at 31 December 2019	**7.142**	**4.548**	**16.335**	**28.024**

SME loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	**934**	**321**	**-**	**1.256**
Stage transfers	-125	1.566	1.666	3.107
New financial assets originated or purchased	2.220	1.541	579	4.340
Changes in PD/LGD/EAD	-77	-33	-	-110
Changes to model assumptions and methodologies	-162	-	-	-162
Financial assets derecognised or redeemed during the period	-110	-31	-	-141
FX and other movements	-28	-35	-24	-87
Loss allowance as at 31 December 2018	**2.652**	**3.329**	**2.222**	**8.203**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**489**	**-**	**-**	**489**
Stage transfers	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Changes in PD/LGD/EAD	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Financial assets derecognised or redeemed during the period	-128	-	-	-128
Loss allowance as at 31 December 2019	**361**	**-**	**-**	**361**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	**848**	**268**	**-**	**1.116**
Stage transfers	-	-268	-	-268
New financial assets originated or purchased	16	-	-	16
Changes in PD/LGD/EAD	-11	-	-	-11
Changes to model assumptions and methodologies	-	-	-	-
Financial assets derecognised or redeemed during the period	-364	-	-	-364
Loss allowance as at 31 December 2018	**489**	**-**	**-**	**489**

The loss allowance for debt securities measured at FVOCI of EUR 0.4 million (2018: EUR 0.5 million) does not reduce the carrying amount of these investments (which are measured at fair value), but gives rise to an equal and opposite gain in OCI.

Based on the tables above the following table presents a reconciliation of the loss allowance movements with an impact on the income statement with the net impairment charge presented in the income statement.

	2019
Mortgage loans measured at amortized cost	1.536
Consumer loans measured at amortized cost	47.142
SME loans measured at amortized cost	19.956
Debt securities measured at FVOCI	-129
Net impairment charge in P&L	**68.506**

	2018
Mortgage loans measured at amortized cost	-590
Consumer loans measured at amortized cost	41.988
SME loans measured at amortized cost	7.028
Debt securities measured at FVOCI	-627
Net impairment charge in P&L	**47.800**

The following tables further explains changes in the gross carrying amount to help explain their significance to the changes in the loss allowance for the same portfolios as discussed above:

Mortgage loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	**9.388.677**	**217.942**	**13.419**	**9.620.038**
Stage transfers	1.605	-3.754	2.149	-
New financial assets originated or purchased	1.551.720	8.334	869	1.560.923
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-856.910	-27.807	-3.736	-888.453
Write-offs	-28	-6	-204	-238
Other movements	368.842	-	-	368.842
Gross carrying amount as at 31 December 2019	**10.453.906**	**194.709**	**12.496**	**10.661.111**

Mortgage loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	**8.904.716**	**199.072**	**16.244**	**9.120.032**
Stage transfers	-39.283	34.619	4.664	-
New financial assets originated or purchased	1.420.662	8.861	644	1.430.167
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-843.339	-24.566	-7.887	-875.792
Write-offs	-76	-44	-246	-367
Other movements	-54.003	-	-	-54.003
Gross carrying amount as at 31 December 2018	**9.388.677**	**217.942**	**13.419**	**9.620.038**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2019	**1.046.561**	**47.983**	**38.361**	**1.132.904**
Stage transfers	-147.282	89.610	57.672	-
New financial assets originated or purchased	577.555	49.826	18.786	646.167
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-502.263	-46.988	-19.909	-569.160
FX and other movements	17.791	631	1.433	19.855
Gross carrying amount as at 31 December 2019	**992.362**	**141.062**	**96.343**	**1.229.767**

Consumer loans measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	**676.527**	**88.354**	**22.983**	**787.863**
Stage transfers	16.057	-32.451	16.394	-
New financial assets originated or purchased	749.118	23.022	7.534	779.674
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-390.972	-26.341	-6.332	-423.645
FX and other movements	-4.169	-4.601	-2.219	-10.989
Gross carrying amount as at 31 December 2018	**1.046.561**	**47.983**	**38.361**	**1.132.904**

SME loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2019	**228.971**	**33.778**	**3.710**	**266.459**
Stage transfers	-8.386	-10.408	18.794	-
New financial assets originated or purchased	177.924	3.738	2.516	184.178
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-98.240	-10.437	-2.452	-111.129
FX and other movements	18.957	1.086	1.470	21.513
Gross carrying amount as at 31 December 2019	**319.226**	**17.758**	**24.038**	**361.022**

SME loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2018	**76.210**	**5.290**	**-**	**81.500**
Stage transfers	-11.891	9.107	2.784	-
New financial assets originated or purchased	211.817	25.643	1.089	238.549
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-44.707	-5.672	-123	-50.502
FX and other movements	-2.458	-590	-39	-3.087
Gross carrying amount as at 31 December 2018	**228.971**	**33.778**	**3.710**	**266.459**

Debt securities measured at FVOCI	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2019	**1.314.614**	**-**	**-**	**1.314.614**
Stage transfers	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-251.125	-	-	-251.125
Other movements	-1.298	-	-	-1.298
Gross carrying amount as at 31 December 2019	**1.062.191**	**-**	**-**	**1.062.191**

Debt securities measured at FVOCI	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2018	**1.572.831**	**19.339**	**-**	**1.592.171**
Stage transfers	19.295	-19.295	-	-
New financial assets originated or purchased	143.292	-	-	143.292
Financial assets that have been derecognised or redeemed during the period (other than write-offs)	-417.493	-	-	-417.493
Other movements	-3.311	-44	-	-3.355
Gross carrying amount as at 31 December 2018	**1.314.614**	**-**	**-**	**1.314.614**

4.4.12. Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment
The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. Refer to note 4.4.4 for a more detailed description of ECL measurement. All asset categories not presented here are determined to have non-material credit risk or to be of a short-term nature. The gross carrying amount of financial assets below also represents Aegon Bank's maximum exposure to credit risk on these assets.

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Investment grade (NHG guaranteed)	7.912.979	140.993	1.931	8.055.903
Investment grade (Non-NHG guaranteed)	2.540.927	29.271	1.325	2.571.523
Standard/Special monitoring	-	24.444	9.240	33.685
Gross carrying amount	**10.453.906**	**194.709**	**12.496**	**10.661.111**
Loss allowance	855	686	332	1.873
Net carrying amount as at 31 December 2019	**10.453.051**	**194.023**	**12.164**	**10.659.239**

Mortgage loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Investment grade (NHG guaranteed)	6.684.156	140.250	1.300	6.825.707
Investment grade (Non-NHG guaranteed)	2.704.521	39.035	2.136	2.745.692
Standard/Special monitoring	-	38.657	9.982	48.639
Gross carrying amount	**9.388.677**	**217.942**	**13.419**	**9.620.038**
Loss allowance	44	144	148	337
Net carrying amount as at 31 December 2018	**9.388.633**	**217.798**	**13.271**	**9.619.701**

The credit risk of mortgages is divided into mortgages which are NHG guaranteed, not NHG guaranteed and mortgages with standard / special monitoring. Mortgages which are more than 60 days in arrear are classified under standard / special monitoring.

Consumer loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Days in arrear				
0-30	992.362	126.607	38.094	1.157.062
31-60	-	10.483	882	11.364
61-90	-	3.498	700	4.198
> 90	-	474	56.669	57.143
Gross carrying amount	**992.362**	**141.062**	**96.343**	**1.229.767**
Loss allowance	17.288	20.082	51.796	89.166
Net carrying amount as at 31 December 2019	**975.074**	**120.980**	**44.548**	**1.140.601**

Consumer loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Days in arrear				
0-30	1.044.856	33.916	1.114	1.079.885
31-60	1.426	9.597	668	11.691
61-90	134	3.452	750	4.337
> 90	-	1.160	35.831	36.990
Gross carrying amount	**1.046.416**	**48.125**	**38.364**	**1.132.904**
Loss allowance	27.490	15.818	31.391	74.699
Net carrying amount as at 31 December 2018	**1.018.926**	**32.306**	**6.972**	**1.058.205**

SME loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Days in arrear				
0-30	319.226	14.613	-	333.839
31-60	-	2.281	-	2.281
61-90	-	864	-	864
> 90	-	-	24.038	24.038
Gross carrying amount	**319.226**	**17.758**	**24.038**	**361.022**
Loss allowance	7.142	4.548	16.335	28.024
Net carrying amount as at 31 December 2019	**312.084**	**13.210**	**7.703**	**332.998**

SME loans measured at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit impaired**	**Stage 3 Lifetime ECL credit impaired**	**Total**
Days in arrear				
0-30	228.970	31.032	-	260.002
31-60	-	1.310	-	1.310
61-90	-	1.437	-	1.437
> 90	-	-	3.710	3.710
Gross carrying amount	**228.970**	**33.778**	**3.710**	**266.459**
Loss allowance	2.652	3.328	2.222	8.203
Net carrying amount as at 31 December 2018	**226.318**	**30.450**	**1.488**	**258.256**

The credit risk of Aegon's Retail Loans (Consumer Loans and SME Loans) is determined using a combination of application and behavioral loan characteristics. At the moment of loan origination, the most important characteristic in determining the credit risk, is the credit rating provided by the lending platform at origination. During the course of the loan's lifetime the payment behavior of the customer (i.e. arrears status and prepayments) is the most important factor in determining the loan's credit risk.

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 Lifetime ECL credit impaired	Total
AAA	456.849	-	-	456.849
AA	546.027	-	-	546.027
A	31.814	-	-	31.814
BBB	27.502	-	-	27.502
Carrying amount	**1.062.191**	**-**	**-**	**1.062.191**
Loss allowance (recorded in OCI)	361	-	-	361
Net carrying amount as at 31 December 2019	**1.062.191**	**-**	**-**	**1.062.191**

Debt securities measured at FVOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 Lifetime ECL credit impaired	Total
AAA	581.797	-	-	581.797
AA	606.592	-	-	606.592
A	73.343	-	-	73.343
BBB	52.882	-	-	52.882
Carrying amount	**1.314.614**	**-**	**-**	**1.314.614**
Loss allowance (recorded in OCI)	489	-	-	489
Net carrying amount as at 31 December 2018	**1.314.614**	**-**	**-**	**1.314.614**

Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL). For asset categories not included in the table below, the gross carrying amount best represents Aegon Bank’s exposure to credit risk on these items.

	Maximum exposure to credit risk	**Collateral**						**Net exposure**
		Cash	Real estate	Guarantees	Master netting agreements	Surplus collateral	Total collateral	
Cash and amounts due from banks	2.019.089	-	-	-	-	-	-	**2.019.089**
Derivatives	159.763	-	-	-	159.763	-	159.763	**-**
Other financial assets	63.491	-	-	-	-	-	-	**63.491**
At 31 December 2019	**2.242.343**	**-**	**-**	**-**	**159.763**	**-**	**159.763**	**2.082.580**

	Maximum exposure to credit risk	Collateral						Net exposure
		Cash	Real estate	Guarantees	Master netting agreements	Surplus collateral	Total collateral	
Cash and amounts due from banks	1.364.558	-	-	-	-	-	-	**1.364.558**
Derivatives	214.897	-	-	-	214.897	-	214.897	**-**
Other financial assets	78.421	-	-	-	-	-	-	**78.421**
At 31 December 2018	**1.657.877**	**-**	**-**	**-**	**214.897**	**-**	**214.897**	**1.442.979**

Collateral and other credit enhancements

Aegon Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. Aegon Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

Aegon Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Guarantees given (e.g. NHG);
- Margin agreement for derivatives, for which Aegon Bank has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and,
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralized.

Aegon Bank’s policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by Aegon Bank since the prior period.

Aegon Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that Aegon Bank will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and the related collateral held in order to mitigate potential losses are shown below:

	2019			
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Mortgage loans	12.496	332	**12.164**	12.102
Consumer loans	96.343	51.796	**44.548**	-
SME loans	24.038	16.335	**7.703**	-
At 31 December	**132.878**	**68.463**	**64.415**	**12.102**

	2018			
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Mortgage loans	13.419	148	**13.271**	12.936
Consumer loans	38.361	31.391	**6.969**	-
SME loans	3.710	2.222	**1.488**	-
At 31 December	**55.490**	**33.761**	**21.728**	**12.936**

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

The following table shows the distribution of LTV ratios for Aegon Bank's mortgage credit-impaired portfolio:

Mortgage portfolio - LTV distribution	**2019**
Lower than 50%	532
50 to 60%	252
60 to 70%	1.283
70 to 80%	2.566
80 to 90%	3.923
90 to 100%	1.139
Higher than 100%	2.469
At 31 December	**12.164**

Mortgage portfolio - LTV distribution	**2018**
Lower than 50%	211
50 to 60%	1.321
60 to 70%	421
70 to 80%	1.978
80 to 90%	2.961
90 to 100%	3.237
Higher than 100%	3.141
At 31 December	**13.271**

4.4.13. Credit risk concentration

The tables that follow present specific risk concentration information for financial assets measured at FVOCI and financial assets FVPL.

Credit risk concentration – debt securities and money market investments

	2019	2018
ABSs- Collateralized Debt Obligations (CDOs)	237.756	252.271
ABSs- Other	12.446	23.229
Residential mortgage backed securities (RMBSs)	171.451	218.766
Total investments in unconsolidated structured entities	**421.653**	**494.266**
Financial - Banking	60.973	171.289
Financial - Other	14.595	14.923
Industrial	139.511	195.738
Utility	-	10.000
Sovereign exposure	425.459	428.397
Total	**1.062.191**	**1.314.614**
Of which past due and / or impaired assets	-	-

Credit risk concentration – mortgage loans

Fair value of the mortgage loan portfolio:	2019	2018
Fair value mortgage loans	11.219.010	10.079.628
The LTV was approximately	67,5%	70,6%
The part of the portfolio that is government guaranteed	75,8%	67,2%
Delinquencies in the portfolio (defined as 60 days in arrears)	0,1%	0,1%
Impairments (reversals) during the year	1.536	-590

Credit risk concentration - mortgage loans	2019	2018
Apartment	1.364.845	1.310.511
Residential	8.770.183	8.059.750
Total	**10.135.027**	**9.370.261**
Of which past due and / or impaired assets	51.688	70.370

Unconsolidated structured entities

Aegon Bank's investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs are presented in the line items financial assets measured at FVOCI and financial assets FVPL of the statement of financial position. Aegon Bank's interests in these unconsolidated structured entities can be characterized as basic interests, Aegon Bank does not have loans, derivatives or other interests related to these investments. The maximum exposure to loss for these investments is therefore equal to the carrying amount which is reflected in the credit risk concentration table regarding debt securities and money market investments. To manage credit risk Aegon Bank invests primarily in senior notes. Additional information on credit ratings for Aegon Bank's investments in unconsolidated structured entities are disclosed in the sections that describe per category of debt securities the composition and impairment assessments. The composition of the structured entities portfolios of Aegon Bank are widely dispersed looking at the individual amount per entity, therefore Aegon Bank only has non-controlling interests in unconsolidated structured entities.

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

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

2019	Number of entities	Carrying amount
EUR 0 < 10 million	17	82.537
> EUR 10 < 25 million	8	122.109
> EUR 25 < 50 million	4	161.357
> EUR 50 < 75 million	1	55.650
At December 31	**30**	**421.653**

2018	Number of entities	Carrying amount
EUR 0 < 10 million	20	87.025
> EUR 10 < 25 million	10	153.243
> EUR 25 < 50 million	2	80.942
> EUR 50 < 75 million	3	173.057
At December 31	**35**	**494.266**

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

	2019			
Type of asset in unconsolidated entity	Interest income	Total gains and losses	**Total**	**Investments**
Residential mortgage backed securities	586	490	**1.076**	171.451
Asset Backed Securities	2.456	-	**2.456**	237.756
ABS's - Other	10	12	**22**	12.446
Total	**3.051**	**502**	**3.554**	**421.653**

	2018			
Type of asset in unconsolidated entity	Interest income	Total gains and losses	**Total**	**Investments**
Residential mortgage backed securities	803	764	**1.567**	218.766
Asset Backed Securities	2.992	1.343	**4.335**	252.271
ABS's - Other	67	16	**83**	23.229
Total	**3.861**	**2.123**	**5.985**	**494.266**

4.4.14. Equity market risk and other investments risk

Fluctuations in equity markets, real estate markets and capital markets may have a negative impact on the profitability and capital position of Aegon Bank. However, Aegon Bank has very limited equity investments and is therefore not exposed to significant risks arising from shocks in equity prices.

4.4.15. Derivatives risk

Aegon Bank is exposed to foreign exchange rate fluctuations and movements in the fair value of its investments as a result of changes in the term structure of interest rates and credit spreads. To hedge all or any part of this risk, Aegon Bank only uses customary financial derivatives, such as interest rate swaps, futures, and currency contracts.

4.4.16. Liquidity risk

Aegon Bank operates a liquidity risk policy that focuses on holding sufficient highly liquid assets so that liquidity requirements can be met both in normal market conditions and in extreme situations resulting from unforeseen circumstances. Key risk factors for Aegon Bank include the liquidity of its investments and the fact that a large portion of savings deposits are repayable on demand.

By further expansion of consumer loans to the asset mix, Aegon Bank has further reduced its cash flow mismatch. The contractual repayments on consumer loans on average have a shorter maturity than mortgages and bonds. In addition, Aegon Bank added more short-term mortgages to the balance sheet through a number of strategic exchanges in recent years, in order to reduce the cash flow mismatch.

Aegon Bank undertakes very stringent hypothetical stress tests on a monthly basis, simulating two parallel shocks:

- an unexpected and sudden loss of customer confidence in Aegon Bank leading to an unexpected and very rapid drawdown of savings deposits; and
- an unexpected and extreme decline in the liquidity of assets, meaning that the investment portfolio can be liquidated less quickly and at considerably lower market values.

Aegon Bank can generate sufficient liquidity, after taking into account appropriate management actions, to meet the liquidity needs in this hypothetical stressed liquidity scenario.

In addition, Aegon Bank monitors the inflow and outflow of savings deposits on a daily basis, in the light of market conditions and its overall cash position.

As at 31 December 2019 Aegon Bank holds EUR 425 million (2018: EUR 428 million) of its investments in sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. In addition, Aegon Bank has funds at the central bank from which Aegon Bank can immediately withdraw. As at 31 December 2019, the amount was EUR 1.899 million (2018: EUR 1.269 million). Aegon Bank expects that it will continue to be able to meet its commitments on the basis of its operating cash flows and revenues from financial assets.

Maturity analysis assets – (for non-derivatives)

The tables below show the residual maturities for each category of financial assets at year-end for 2019 and 2018. These tables do not take into account repayments, interest coupons or dividend to be received and reinvested. The mortgages in the table are included based on the expected outflow based on historical experiences.

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash	1.904.003	-	-	-	-	1.904.003
Amounts due from banks	115.086	-	-	-	-	115.086
Investments	-	2.306.475	5.528.819	2.715.304	3.120.396	13.670.994
Other assets	9.625	58.968	50	-	-	68.643
Total	**2.028.714**	**2.365.444**	**5.528.869**	**2.715.304**	**3.120.396**	**15.758.726**

2018	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash	1.268.659	-	-	-	-	1.268.659
Amounts due from banks	95.899	-	-	-	-	95.899
Investments	-	1.544.018	5.511.660	2.480.992	2.933.107	12.469.777
Other assets	6.861	83.757	196	-	-	90.814
Total	**1.371.419**	**1.627.775**	**5.511.856**	**2.480.992**	**2.933.107**	**13.925.148**

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

The tables below show the remaining contractual maturities for each category of financial liability. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Aegon Bank has to assume that notice is given immediately and the repayment is presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, if the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

The amounts shown in the table below are presented on an undiscounted basis and, accordingly, cannot be reconciled with the corresponding items in the statement of financial position.

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Borrowings	-	749.224	1.492.654	489.057	-	2.730.934
Savings deposits	8.669.186	630.457	1.304.071	538.342	393.757	11.535.813
Other financial liabilities	21.667	250.494	5.004	-	-	277.164
Total	**8.690.853**	**1.630.175**	**2.801.728**	**1.027.399**	**393.757**	**14.543.912**

2018	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Borrowings	-	13.810	1.245.171	984.816	-	2.243.797
Savings deposits	7.910.942	572.009	1.249.615	492.038	361.171	10.585.775
Other financial liabilities	11.102	243.773	4.857	-	-	259.732
Total	**7.922.044**	**829.593**	**2.499.642**	**1.476.854**	**361.171**	**13.089.303**

Maturity analysis – derivatives (contractual cash flows)

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

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

This table includes all financial derivatives regardless of whether they have a positive or a negative value.

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	27.395	84.680	139.170	204.025	455.270
Cash outflows	-	-97.597	-299.277	-256.255	-255.356	-908.484

2018	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	64.111	263.037	501.726	528.750	1.357.625
Cash outflows	-	-130.477	-424.859	-499.760	-470.211	-1.525.306

4.4.17. Other risks

Legislation and regulation

Aegon Bank faces significant risks of litigation and regulatory investigations and actions in connection with its activities. Increasingly in recent years, the financial services sector has faced litigation, regulatory investigations and actions from a range of governmental and regulatory bodies relating to generally accepted practices in the industry. A judgment on a large claim or strict measures by regulatory bodies may have serious consequences for Aegon Bank's operations, operating results and financial position.

Notes to the Statement of financial position and Consolidated income statement

5. Cash

Cash and cash equivalents include cash and demand balances held at the Dutch Central Bank. The Dutch Central Bank requires Aegon Bank to place an equivalent of 1% of its customer deposits with agreed maturity or savings accounts (without restrictions to withdraw their money) in an account with the Dutch Central Bank. This so-called minimum reserve is renewed each maintenance period of approximately 6 weeks. No interest is incurred on this minimum reserve. Deposits at the Dutch Central Bank in excess of seven times this minimum reserve are subject to the ECB deposit rate of -/-50bps conform the two-tier system implemented on 30 October 2019. Up until 17 September the deposit rate amounted to -/- 40bps (2018: -/-40bps). The average minimum required balance on deposit by the Dutch Central Bank was EUR 79.3 million (2018: EUR 72.2 million). The other cash and cash equivalents are unrestricted. Due to the nature of this asset the total amount classifies as current assets.

	2019	2018
Average balance on deposit with DNB at year-end	1.784.618	1.110.475
Average minimum required balance on deposit by DNB for year-end period	79.326	72.170

6. Amounts due from banks

	2019	2018
Bank accounts	115.086	95.899
Total	**115.086**	**95.899**

Amounts due from banks comprise receivables from banks in the Netherlands and abroad and cash collateral provided. Of the amounts due from banks EUR 20.7 million (2018: EUR 24.8 million) relates to cash positions of consolidated securitizations. Furthermore, amounts due from banks includes bank accounts that are restricted for EUR 9.9 million (2018: EUR 11.3 million).

Bank accounts are payable on demand, and deposits have a maturity of less than three months. The carrying amounts disclosed reasonably approximate the fair values at year-end.

7. Mortgage loans and other loans

Mortgage loans and other loans include advances granted in the conduct of business other than advances to credit institutions.

	2019	2018
Loans to the private sector		
- Mortgage loans	10.659.239	9.619.701
- Loans to private individuals and Small and Medium Enterprise loans	1.473.599	1.316.461
- Other loans	475.965	219.001
Total	**12.608.802**	**11.155.163**
Fair value	13.243.187	11.680.029

	2019	2018
Current	1.837.363	1.338.822
Non-current	10.771.439	9.816.341
Total	**12.608.802**	**11.155.163**

Certain mortgage loans shown within the category mortgage loans and other loans are designated in fair value interest rate hedging relationships, and are fair valued with respect to the hedged interest rate. This results in a higher carrying value of EUR 524 million (2018: EUR 249 million).

In February 2018 the mortgages from SAECURE 13 NHG B.V. were repurchased at the FORD (first optional redemption date). The mortgages that are structured through the covered bond amount to EUR 2,706 million (2018: EUR 2,744 million).

The loans to private individuals and Small and Medium Enterprise loans of EUR 1,474 million (2018: EUR 1,317 million) partly relate to the consumer loan portfolio that was purchased during 2013. The loans were structured through a securitization (Kigoi) which is fully consolidated in Aegon Bank. The total balance of consumer loans that were not structured through Kigoi amount to EUR 991 million (2018: EUR 854 million). This portfolio contains consumer loans originated in Germany and the UK. During 1H 2019 Aegon Bank sold its investment in loans originated by Younited Credit (France). Furthermore the portfolio consists of Small and Medium Enterprises loans for an amount of EUR 333 million (2018: EUR 258 million).

Other loans consists of a loan granted to Amvest Vastgoed B.V. amounting to EUR 46.4 million (2018: EUR 45.4 million). Furthermore, the other loans category contains a loan of EUR 429 million (2018: EUR 173 million) to Aegon Derivatives N.V. and Aegon N.V.. The loan with Aegon Derivatives relates to cash collateral given under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Bank. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled daily.

Loans allowance account

Movements on the loan allowance account during the year were as follows:

2019	Mortgage loans	Loans to private individuals and SME	Other	**Total**
At January 1	**336**	**82.902**	**2.081**	**85.318**
Addition charged to income statement	1.536	67.099	83	68.718
Amounts written off	-	-4.198	-422	-4.619
Other	-	-28.478	-	-28.478
At December 31	**1.872**	**117.324**	**1.742**	**120.938**

2018	Mortgage loans	Loans to private individuals and SME	Other	**Total**
At January 1	**1.168**	**36.101**	**2.643**	**39.911**
Effect of change in accounting policies	-242	11.027	-	10.785
Restated loan allowance as at January 1	**926**	**47.127**	**2.643**	**50.696**
Addition charged to income statement	-590	49.017	588	49.014
Amounts written off	-	-4.949	-1.039	-5.988
Other	-	-8.294	-111	-8.405
At December 31	**336**	**82.902**	**2.081**	**85.318**

Effect of change in accounting policies relates to the impact of the adoption of IFRS 9 with a date of transition of 1 January 2018. The following table shows the impact on the loan allowance divided into the impact on consumer loans, SME loans and mortgage loans.

	Opening balance
Impact of higher provision consumer loans	-10.803
Impact of higher provision SME loans	-224
Impact of lower provision mortgage loans	242
Total impact on loan allowance account	**-10.785**

8. Other financial assets

Other financial assets exclude derivatives. Refer to note 9 for derivatives. Refer to note 23 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

	2019	2018
Financial assets at fair value through other comprehensive income (FVOCI)	1.062.191	1.314.614
Total financial assets, excluding derivatives	**1.062.191**	**1.314.614**

2019	FVOCI	**Total**	Fair value
Debt securities	1.062.191	1.062.191	1.062.191
At December 31	**1.062.191**	**1.062.191**	**1.062.191**

2018	FVOCI	**Total**	Fair value
Debt securities	1.314.614	1.314.614	1.314.614
At December 31	**1.314.614**	**1.314.614**	**1.314.614**

	2019	2018
Current	469.112	205.203
Non-current	593.079	1.109.411
Total financial assets, excluding derivatives	**1.062.191**	**1.314.614**

None of the financial assets has been reclassified during the financial year.

Investments in unconsolidated structured entities

Aegon Bank did not provide financial or other support to unconsolidated structured entities. Nor does Aegon Bank have intentions to provide financial or other support to unconsolidated structured entities in which Aegon Bank has an interest or previously had an interest.

Refer to note 4.4.12 'credit risk exposure' of the consolidated financial statements for more information.

9. Derivatives

	Derivative asset		Derivative liability	
	2019	2018	2019	2018
Derivatives not designated in a hedge	61.912	51.257	56.663	28.484
Derivatives designated as fair value hedges	97.850	163.641	504.912	319.337
Total	**159.763**	**214.897**	**561.575**	**347.822**

	2019	2018
Current	-8.703	7.597
Non-current	-393.109	-140.521
Total net derivatives	**-401.812**	**-132.924**

Refer to note 23 for a summary of all financial assets and financial liabilities at fair value through profit or loss. Refer to note 26 for more information about offsetting, enforceable master netting arrangements and similar arrangements.

Derivatives not designated in a hedge

	Derivative asset		Derivative liability	
	2019	2018	2019	2018
Derivatives held as an economic hedge	61.912	51.257	53.293	25.127
Bifurcated embedded derivatives	-	-	3.370	3.357
Total	**61.912**	**51.257**	**56.663**	**28.484**

Aegon Bank uses derivatives for risk management purposes. Aegon Bank's exposure to interest rate risk, arising from its investments on the one hand and its commitments on the other, is adjusted to what it considers to be an appropriate level by using derivatives. The instruments used are interest rate swaps (IRSs) and futures.

Only a small part of Aegon Bank's products involve guarantees to customers. The extent of Aegon Bank's guarantee obligation varies according to changes in the underlying assets and will only become effective at the end date of the underlying contract. The guarantee obligation is to be regarded as a written put position. Customers pay a mark-up for the guarantees. The market and interest rate risks in these guarantees are hedged through futures contracts.

Hedge accounting

Aegon Bank's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting are recognized in the income statement. The effective portion of the fair value change on the hedged item is also recognized in the income statement. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2019, Aegon Bank recognized EUR 278.3 million of fair value changes on mortgage loans under fair value hedge accounting under the EU carve-out in the income statement (2018: EUR 33.7 million). Furthermore EUR -/- 1.6 million (2018: nil) of fair value changes on borrowings have been recognized under fair value hedge accounting under full IFRS.
These amounts were offset by EUR -/- 254.6 million fair value changes recognized on the derivatives used as hedging instrument (2018: EUR -/-42.1 million). This offset is only possible when using the EU carve-out on hedge accounting as otherwise the hedge would not have been "highly" effective as

required by IFRS. During 2019 Aegon Bank amortized EUR -/- 3.5 million (2018: EUR -/- 7.2 million) on the basis adjustment.

The total net accounting ineffectiveness recognized in the income statement was EUR 22.0 million in 2019 (2018: EUR -/- 8.4 million). As at 31 December 2019, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR 407.1 million negative, presented in the statement of financial position as EUR 504.9 million under liabilities and EUR 97.9 million under assets (2018: EUR 155.6 million negative, EUR 319.3 million under liabilities and EUR 163.6 million under assets).

The following table contains details of the hedging instruments used in Aegon Bank's hedging strategies:

	Carrying amounts				
Fair value hedges	**Notional**	**Assets**	**Liabilities**	**Balance Sheet line item(s)**	**Changes in fair value used in calculating hedge ineffectiveness**
Interest rate					
Macro fair value hedge	4.691.231	97.850	504.912	Derivatives	-256.130
Micro fair value hedge	-	-	-	Derivatives	1.520

The following table contains details of the hedged exposures covered by Aegon Bank's hedging strategies:

Fair value hedges	**Carrying amount of hedged item**		**Accumulated amount of fair value adjustments on the hedged item**		**Balance Sheet line item(s)**	**Change in fair value of hedged item for ineffectiveness assessment**
	Assets	**Liabilities**	**Assets**	**Liabilities**		
Interest rate						
Macro fair value hedge	10.659.239	-	524.211	-	Mortgage loans and other loans	278.247
Micro fair value hedge	-	2.730.934	-	3.716	Borrowings	-1.608

Fair value hedges	Gains / (loss) recognised in OCI	Hedge ineffectiveness recognised in P&L	P&L line item that includes hedge ineffectiveness	*Amounts reclassified from reserves to P&L as:* Hedged cash flows will no longer occur	Hedged item affected P&L	P&L line item that includes reclassified amount
Interest rate						
Macro fair value hedge	n.a.	22.117	Result from financial transactions	n.a.	n.a.	n.a.
Micro fair value hedge	n.a.	-87	Result from financial transactions	n.a.	n.a.	n.a.

Effect of uncertainty of IBOR reform on derivatives designated as fair value hedges

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

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

Aegon Bank's fair value hedges are directly exposed to changes in benchmark rates (predominantly Eonia and Euribor), as it is not clear until when these benchmark rates will be continued and how they will transition to alternative rates. For example, the majority of financial instruments designated as fair value hedges have a maturity date beyond 31 December 2021 (notional amount: EUR 8,528 million). Aegon Bank applies the reliefs offered in IAS 39 to ensure that this uncertainty does not result in the early termination of hedge accounting, whilst also assuming for measurement purposes that, owing to the general principle of equivalence, transitions to alternative rates will not result in significant contract modifications.

10. Other assets and receivables

	2019	2018
Receivables	20.586	27.988
Accrued income	48.058	62.826
Total	**68.643**	**90.814**

10.1. Receivables

	2019	2018
Investment debtors	13.130	13.795
Current account with group companies	5.152	12.392
Other	2.303	1.801
Provision for doubtful debts	-	-
Total	**20.586**	**27.988**
Current	20.536	27.792
Non-current	50	196
Total	**20.586**	**27.988**

The current account with group companies consists of a current account asset with Aegon Nederland N.V. of EUR 5.2 million (2018: EUR 12.4 million asset).

The carrying amounts disclosed reasonably approximate the fair values at year-end.

Information on provision for doubtful debts
This provision relates to investment debtors and other receivables.

	2019	2018
At January 1	-	450
Used during the year	-	-450
At December 31	**-**	**-**

10.2. Accrued income

	2019	2018
Accrued interest	48.058	62.826
At December 31	**48.058**	**62.826**

The account ‘Accrued income’ is classified entirely as current assets. The carrying amounts disclosed reasonably approximate the fair values at year end.

11. Savings deposits

	2019	2018
At January 1	10.585.775	9.567.498
Deposits	12.494.003	9.707.995
Withdrawals	-11.615.849	-8.764.712
Interest credited	71.885	74.994
At December 31	**11.535.813**	**10.585.775**
Current	9.299.643	8.482.951
Non-current	2.236.170	2.102.824
	11.535.813	**10.585.775**

The savings deposits comprise EUR 893 million of savings related to 'Bankspaarhypotheken' (2018: EUR 769 million). The received deposits related to the 'Bankspaarhypotheken' are directly invested in a sub participation of the mortgage of the specific client. The sub participation in the mortgages and the related deposits are shown gross in the financial statements as there is no intention to (directly) settle the deposit with the mortgage.

The carrying amounts disclosed reasonably approximate the fair values at year-end.

12. Borrowings

	2019	2018
Covered bond and notes	2.730.934	2.243.797
At December 31	**2.730.934**	**2.243.797**

	2019	2018
Current	749.224	13.810
Non-current	1.981.710	2.229.987
Total	**2.730.934**	**2.243.797**
Fair value	2.733.360	2.249.280

As per year end Aegon Bank had the following outstanding issues:

Issue	**Issue date**	**Nominal value**	**Maturity date**	**Interest rate**
Cobo 1	December 2015	750	December 2020	0.25%
Cobo 2	May 2016	500	May 2023	0.25%
Cobo 3	June 2017	500	June 2027	0.75%
Cobo 4	November 2017	500	November 2024	0.38%
SNP	June 2019	500	June 2024	0.63%

Covered bond (Cobo)

In Q4 2015, Aegon Bank has entered into a EUR 5 billion Conditional Pass-Through Covered Bond Program. Under this Program, the payment of interest and principal is guaranteed by an Aegon administered structured entity, Aegon Conditional Pass-Through Covered Bond Company B.V. (the Company). In order for the Company to fulfill its guarantee, Aegon Bank legally transfers mortgage loans originated by Aegon affiliates to the Company. The Company is consolidated by Aegon Bank. In December 2015, Aegon Bank successfully placed its first covered bond transaction backed under this program.

Senior Non Preferred Notes (SNP)

In Q2 2019 Aegon Bank issued EUR 0.5 billion of Senior Non-Preferred notes (SNP). These SNP notes qualify as MREL eligible notes. Based on the MREL regulation the National Resolution Authority imposes a Minimum Requirement for own funds and Eligible Liabilities. If a bank fails and goes into resolution, the MREL acts as a buffer to absorb losses and to provide new capital to the bank. The legal maturity of the notes is Q2 2024. The notes may only be redeemed at the option of the Issuer for tax reasons and upon the occurrence of an MREL Disqualification Event. Such an "MREL Disqualification Event" shall occur if, as a result any amendment to, or change in, any Applicable MREL Regulations, or any change in the application or official interpretation of any Applicable MREL Regulations, in any such case becoming effective on or after the Issue Date of the notes, the notes are or (in the opinion of the Issuer or the Competent Authority) are likely to become fully or partially excluded from the Issuer's MREL Eligible Liabilities.

SAECURE Notes

In February 2018 the notes from SAECURE 13 NHG B.V. were repurchased at the FORD (first optional redemption date).

13. Net deferred tax liabilities

	2019	2018
Deferred tax assets	-	-
Deferred tax liabilities	74.579	67.301
Total net deferred tax liability / (asset)	**74.579**	**67.301**

Movement in deferred tax

2019	Financial assets	Other	Total
At January 1	**67.301**	**-**	**67.301**
Charged to income statement	7.097	-	7.097
Charged to equity	180	-	180
At December 31	**74.579**	**-**	**74.579**

2018	Financial assets	Other	Total
At January 1	**102.482**	**-704**	**101.778**
Effect of change in accounting policies	-122	-	-122
Restated net deferred tax liability / (asset) as at January 1	**102.360**	**-704**	**101.656**
Charged to income statement	-32.118	-	-32.118
Charged to equity	-2.238	-	-2.238
Other	-704	704	-
At December 31	**67.301**	**-**	**67.301**

Effect of change in accounting policies relates to the impact of the adoption of IFRS 9 with a date of transition of 1 January 2018.

Deferred tax assets and liabilities are netted if there is a legally enforceable right to net current tax assets and liabilities and the deferred tax items relate to the same taxation authority. Deferred tax assets are recognized for temporary differences, carry forward of unused tax losses and carry forward of unused tax credits when, in the opinion of management, it is probable that they can be utilized. All deferred taxes are non-current.

The future change of Dutch corporate income tax rates had a negative impact of EUR -/- 2.8 million (2018: positive impact of EUR 7.4), which is processed through deferred taxes.

14. Provisions

	2019	2018
Other provisions	10.504	10.145
Total	**10.504**	**10.145**

	2019	2018
Current	5.501	5.288
Non-current	5.004	4.857
Total	**10.504**	**10.145**

The provisions relates to pending claims and litigations.

Movements in provisions

2019	Total
At January 1	10.145
Additions charged to earnings	421
Used during the year	-62
At December 31	**10.504**

2018	Total
At January 1	2.893
Additions charged to earnings	7.327
Used during the year	-76
At December 31	**10.145**

15. Other liabilities and accruals

	2019	2018
Other liabilities	205.294	166.676
Accruals	61.366	82.911
Total	**266.660**	**249.587**

The carrying amounts of financial items disclosed reasonably approximate fair value at year-end.

15.1. Other liabilities

	2019	2018
Investment creditors	6.686	1.722
Income tax payable	23.263	29.172
Social security and taxes payable	7.895	5.395
Current account with group companies	77.343	92.261
Other creditors	90.108	38.125
Total	**205.294**	**166.676**
Current	205.294	166.676
Non-current	-	-
Total	**205.294**	**166.676**

The current account with group companies consists of a current account liability to Aegon Hypotheken B.V. of EUR 77.3 million (2018: liability EUR 92.3 million).

15.2. Accruals

	2019	2018
Accrued interest	61.366	82.911
Total	**61.366**	**82.911**
Current	61.366	82.911
Non-current	-	-
Total	**61.366**	**82.911**

Financial liabilities valued at amortized cost

The table that follows shows the items recognized under total financial liabilities that are valued at amortized cost.

	2019	2018
Savings deposits	11.535.813	10.585.775
Borrowings	2.730.934	2.243.797
Other liabilities and accruals	266.660	249.587
Total	**14.533.408**	**13.079.159**

16. Equity

	2019	2018
Share capital	37.437	37.437
Share premium	476.751	401.751
Revaluation reserves	9.360	7.710
Retained earnings	178.746	173.526
Participations	9.500	9.500
Net income / (loss)	26.629	5.695
Total	**738.423**	**635.619**

Movement in share premium includes a capital injection of EUR 75 million (2018: EUR 50 million).

16.1. Share capital

	2019	2018
Authorized share capital	90.000	90.000
Not issued	52.563	52.563
Total	**37.437**	**37.437**

The authorized share capital is EUR 90 million, divided into 90,000 shares of EUR 1,000.00 nominal value each, of which 37,437 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2019 and 2018, Aegon Bank did not pay dividend to Aegon Nederland N.V.

Under Dutch law the amount that is legally available to distribute as dividend to the shareholder consists of the amount that is available after deduction of the amount of the outstanding share capital (both the paid-in and the not paid-in amount on the share capital) and the amount equal to the legal and statutory reserves.

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

16.2. Revaluation reserves

	2019	2018
At January 1	**7.710**	**14.789**
Effect of change in accounting policies	-	-366
Restated revaluation reserve as at January 1	**7.710**	**14.423**
Gross revaluation	2.461	1.780
Net (gains) / losses transferred to income statement	-631	-10.731
Tax effect	-180	2.238
At December 31	**9.359**	**7.710**

Effect of change in accounting policies relates to the impact of the adoption of IFRS 9 with a date of transition of 1 January 2018.

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

16.3. Participations

	2019	2018
At January 1	9.500	9.500
Issuance of participations	-	-
At December 31	**9.500**	**9.500**

Aegon Bank issued client participations under the brand name Knab. The participations have the following characteristics:

- The participations are subordinated perpetual liabilities issued by Aegon Bank N.V.
- Participations were available for Plus, Premium and Business Knab customers.
- Holders of the participations are entitled to a 50% discount on the monthly Knab fee and an interest rate

of initial 5% on the notional of the participation.

- The interest rate will be evaluated periodically and can be adjusted as a result of market circumstances and no step ups will be applied.
- The bank has the right to waive one or more monthly interest payments and the discount on the fee. In case of waived interest payments, no accumulation will be applied.
- Based on the discretion of management the bank may have the right to repay the notional after five year of the issue.
- Prepayments can only be executed based on regulatory grounds and with approval of the regulator.
- As set out in the prospectus the bank may in specific situations obliterate the notional of the participations.

Based on the specific characteristics the participation qualifies as tier 1 capital under the applicable banking regulations. Due to the nature of the participation, the instrument also qualifies as equity under IFRS. The discount on the fee is netted on the corresponding fee income. The interest charges are treated as dividend in the consolidated statement of changes in equity. The dividend is shown on a net basis. This includes the deducted dividend tax on the discount and the interest.

On 2 November 2017, a change to the program conditions for the participations became effective, pursuant to which (among other things) (i) no participations will be issued anymore and (ii) Aegon Bank has the right to redeem all the participations starting from 1 November 2022 (if not earlier redeemed pursuant to the program conditions). As at 31 December 2019, Aegon Bank has issued 1,900 participations with a corresponding value of EUR 9,5 million (2018: 1,900 participations with a corresponding value of EUR 9,5 million).

17. Interest income and expense

17.1. Interest income and related fees

Interest income calculated using the effective interest method	2019	2018
Mortgage loans and other loans	388.199	332.847
Debt securities	4.689	5.677
Total	**392.888**	**338.524**

Other interest income	2019	2018
Debt securities FVPL	-	500
Total	**-**	**500**

	2019	2018
Financial assets measured at FVOCI	4.689	5.677
Amortized cost	388.199	332.847
Financial assets measured at FVPL	-	500
Total	**392.888**	**339.024**

The category ‘Mortgage loans and other loans’ relates for EUR 264.3 million (2018: EUR 246.2 million) to mortgages, for EUR 93.0 million (2018: EUR 70.3 million) to consumer loans, for EUR 29.9 million (2018: EUR 15.3 million) to Small and Medium Enterprise loans and for EUR 1.0 million (2018: EUR 1.1 million) to other loans.

Interest income on financial assets and financial liabilities that are measured at fair value through profit or loss are presented as other interest income.

17.2. Interest expense and related fees

Interest expenses calculated using the effective interest method	2019	2018
Cash	6.849	4.461
Savings deposits	64.970	68.339
Covered bond and SNP notes	14.192	12.316
Other	226	834
Total	**86.236**	**85.950**

Other interest expenses	2019	2018
Derivatives	67.888	61.350
Total	**67.888**	**61.350**

	2019	2018
Amortized cost	86.236	85.950
Financial liabilities measured at FVPL	67.888	61.350
Total	**154.124**	**147.300**

Interest expenses on financial assets and financial liabilities that are measured at fair value through profit or loss are presented as other interest expenses.

18. Fee and commission income and expense

18.1. Fee and commission income

	2019	2018
Revenue from customer transactions	17.292	12.523
Total	**17.292**	**12.523**

18.2. Fee and commission expense

	2019	2018
Commissions	1.886	1.739
Total	**1.886**	**1.739**

19. Result from financial transactions

	2019	2018
Net fair value change of guarantees	148	-542
Net fair value change of derivatives	7.644	-21.790
Realized gains / (losses) on consumer loans	1.464	-
Realized gains / (losses) on financial assets measured at FVOCI	502	10.104
Realized gains / (losses) on financial assets measured at FVPL	-	-261
Realised gains / (losses) on FVTPL participations inv. funds	-	-
Total	**9.759**	**-12.489**

The net fair value change of derivatives consists of the net amount of the result of derivatives and hedge accounting. Furthermore this line also includes the FX results. For the amount recognized in the net fair value change of derivatives we refer to note 9 'Derivatives'.

20. Employee expenses and other operating expenses

20.1. Employee expenses

At 31 December 2019 Aegon Nederland employed 339 (2018: 160) FTEs who carried out work for Aegon Bank or its subsidiaries in the Netherlands. The salaries, social security contributions and pension contributions for staff employed by Aegon Nederland are recharged to Aegon Bank. The total staff costs including intra-group charges are shown in the table below. Salaries expenses increased from EUR 23.0 million in 2018 to EUR 24.9 million in 2019. The increase in salaries expense is mainly due to the growth of the bank, the impact of the integration of Aegon Bank and Knab and the related termination of the outsourcing of activities to Knab Advies en Bemiddeling.

	2019	2018
Salaries	12.674	10.803
Post-employment benefit costs	1.936	1.780
Social security charges	1.806	1.350
Other personnel costs	8.456	9.038
Total	**24.872**	**22.971**

"Other Personnel costs" mainly comprise the costs of hiring temporary workers and interim staff.

The assets and liabilities arising from employee benefits for staff working for Aegon Bank are recognized in the financial statements of Aegon Nederland N.V. Refer to the financial statements of Aegon Nederland N.V. for more information on the pension plan and the defined benefit liabilities. The pension cost charged (post-employment benefit costs) to Aegon Bank are a fixed percentage of the salaries charged to the entity.

20.2. Other operating expenses

	2019	2018
IT and consultancy fees	38.630	30.729
Investment expenses	33.180	31.772
Recharged costs of support organizations	33.597	34.146
Other expenses	25.333	24.492
Total	**130.739**	**121.138**

The operating expenses increased primarily due to growth of the Bank as compared to 2018. Furthermore costs increased due to the integration of Knab and Aegon Bank (project One) and additional KYC expenses.

Remuneration independent auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Bank's independent public auditor during 2019 and audited these financial statements. The fees for services rendered to Aegon Bank do not need to be disclosed in this Annual Report, based on article 382a.3 of Book 2 of the Dutch Civil Code. The aggregate fees for professional services and other services rendered by PricewaterhouseCoopers Accountants N.V. to the whole group of Aegon N.V. are disclosed in the Annual Report of Aegon N.V.

Our auditor, PriceWaterhouseCoopers Accountants N.V., has rendered, for the period to which our statutory audit 2019 relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities.

- Other audit services required by law or regulatory requirements:
  - Audit of the regulatory returns to be submitted to the Dutch Central Bank
  - Assurance engagement on cost price models to be submitted to the AFM
  - Assurance engagement on segregation of assets to be submitted to the AFM
  - Agreed upon procedures on interest rate risk reporting to the Dutch Central Bank
- Other audit services:
  - Comfort letters relating to the SNP issue and covered bond program
  - ISAE 3402 reporting on Deposit Guarantee System
  - Assurance report on Netto Havenpensioen
  - Agreed upon procedures on assets coverage test for covered bond program

20.3. Remuneration (former) members Statutory Board

Current and former members of the Statutory Board are regarded as key management personnel. The remuneration for current and former directors recharged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code is set out below (amounts in euros). For the remuneration policies we refer to paragraph 1.5 'remuneration policy' in the management board report.

	2019	2018
Members of the Board of Directors		
Gross salary and social security contributions	921.530	930.842
Pension premium	103.763	146.311
Other benefits	180.687	164.129
Total	**1.205.980**	**1.241.282**

Mortgage loans Statutory Board

On the reporting date, members of the Statutory Board had mortgage loans totaling EUR 1,472 thousand from a company associated with Aegon Bank (2018: EUR 1,557 thousand) at interest rates ranging from 2.04% variable to 4.65% in line with the terms and conditions available to the employees of Aegon Bank. During 2019 the amount of mortgages decreased by EUR 85 thousand (2018: decreased by EUR 22 thousand). No other loans, guarantees or advance payments exists.

20.4. Remuneration (former) members supervisory board

Members and former members of the supervisory board are regarded as key management personnel. No costs were recharged to Aegon Bank for internal supervisory board members. This is in accordance with Aegon Bank's remuneration policy.

The remuneration for current and former supervisory directors charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code was EUR 123 thousand (2018: EUR 99 thousand). This remuneration consists entirely of gross pay and the employer's share of social security charges.

Mortgage loans supervisory board

On the reporting date, supervisory directors had mortgage loans from a company associated with Aegon Bank totaling EUR 581 thousand (2018: EUR 602 thousand) at an average interest rate of 2.45% (2018: 2.45%). Repayments of EUR 21 thousand were received in 2019 (2018: EUR 593 thousand).

21. Impairment losses / (reversals)

	2019	2018
Impairment charges comprise:		
- Financial assets measured at fair value through other comprehensive income (FVOCI)	-129	-627
- Loans	69.218	49.014
Total	**69.089**	**48.388**

22. Income tax

	2019	2018
Current tax		
- current year	5.501	25.136
- adjustments to prior year	-	-1.395
Deferred tax		
- origination / (reversal) of temporary differences	4.305	-25.886
- changes in tax rates / bases	2.792	-7.424
- adjustments to prior years	-	1.395
Income tax for the period (income) / charge	**12.598**	**-8.173**

The weighted average applicable statutory tax rate for Aegon Bank in 2019 and 2018 was 25%. In 2020 the applicable statutory tax rate will remain 25.0% and in 2021 and onwards it will be 21.7%. The changes in the statutory tax rate have been taken into account in the (reversal of) deferred taxes. The future decrease of Dutch corporate income tax rates had a negative impact of -/- EUR 2.8 million (2018: positive impact of EUR 7.4 million), which was processed through deferred taxes.

Reconciliation between standard and effective income tax

	2019	2018
Income / (loss) before tax	39.227	-2.478
Income tax calculated using weighted average applicable statutory rates (income) / charge	9.807	-620
Difference due to the effects of:		
- changes in tax rates / bases	2.792	-7.424
- adjustments to prior years	-	-130
Income tax for the period (income) / charge	**12.598**	**-8.173**

Aegon Bank is a member of the tax group headed by Aegon N.V., and any taxes it owes directly are set off at the level of the tax group. Aegon Bank is jointly and severally liable for all tax liabilities of the entire tax group.

23. Summary of financial assets and financial liabilities at fair value through profit or loss

The table that follows summarizes the carrying amounts of financial assets and financial liabilities that are classified as at fair value through profit or loss, with appropriate distinction between those financial assets and financial liabilities held for trading and those that, upon initial recognition, were designated as at fair value through profit or loss.

	2019		2018	
	Trading	Designated	Trading	Designated
Derivatives with positive values	61.912	97.850	51.257	163.641
Total financial assets at FVTPL	**61.912**	**97.850**	**51.257**	**163.641**

	2019		2018	
	Trading	Designated	Trading	Designated
Derivatives with negative values	56.663	504.912	28.484	319.337
Total financial liabilities at FVTPL	**56.663**	**504.912**	**28.484**	**319.337**

Gains and losses recognized in the income statement on financial assets and financial liabilities classified as at fair value through profit or loss can be summarized as follows:

	2019		2018	
	Trading	Designated	Trading	Designated
Net gains and losses	-459.646	427.760	3.325	-17.925

Changes in the fair value of financial liabilities designated at fair value through profit or loss were not attributable to changes in credit spread. There are also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

24. Commitment and contingencies

24.1. Investments contracted

In the normal course of business, Aegon Bank has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2020. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the statement of financial position. Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. The sale of mortgage loans relates to pre-announced redemptions on mortgage loans.

As part of its Regie bank strategy Aegon Bank has committed itself directly or through Orange Loans, to invest in private loans, SME loans.

Contracted purchases	2019	2018
Loans to private individuals and Small and Medium Enterprise loans	188.000	1.065.000
Mortgage loans	160.000	100.000

Contracted sales

	2019	2018
Loans to private individuals and Small and Medium Enterprise loans	-	-
Mortgage loans	22.705	18.393

24.2. Other commitments and contingencies

Aegon Bank acts as guarantor for the fulfilment of the obligations of Stichting Aegon Beleggingsgiro towards the customers of Aegon Bank.

Aegon Bank is a member of the tax group headed by Aegon N.V, and any taxes it owes directly are set off at the level of the parent of the tax group. Aegon Bank is jointly and severally liable for all tax liabilities of the entire tax group.

24.3. Off balance sheet assets

As part of its core activities, Aegon Bank enters into contracts and maintains relationships with customers for a variety of financial services. In consideration of these services, Aegon Bank is paid a fee linked to the value of assets, the investment returns or the risks involved in the contract.

Aegon Bank's financial services include the distribution of investment funds operating on the retail market. These assets are held by customers and, accordingly, are not reported in Aegon Bank's statement of financial position. The total amount of assets related to these services was EUR 271 million (2018: EUR 223 million).

Related to the private loans portfolio Aegon Bank has an undrawn commitment amounting to EUR 39 million (2018: EUR 44 million).

Deposit guarantee scheme

The deposit guarantee scheme is a scheme that guarantees certain bank deposits of account holders in the event that a bank fails in the Netherlands. The scheme provides security for deposits up to a maximum of EUR 100,000 per account holder per bank, irrespective of the number of accounts. In the case of a joint account with two persons, it applies per person as a maximum. The scheme covers almost all savings accounts, current accounts and short-term deposits, but not shares or bonds. If, when a credit institution fails, insufficient funds remain to pay its account holders the guaranteed amounts in full or at all, DNB will make payment up to the above-mentioned maximum amounts. This total amount will then be refunded to DNB by the banks in accordance with a cost allocation scheme.

The Ministry of Finance and DNB are engaged in the creation of a fund for the financing of the Deposit Guarantee Scheme. The change is occasioned by the experience of the credit crisis and upcoming European legislation. Under the new funding method, banks will pay risk-weighted ex ante contributions to the DGS. This new policy took effect on 1 January 2016.

24.4. Litigations and proceedings

Aegon Bank is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. Current and former customers, both institutional as groups representing customers, initiate litigation.

Also, certain groups encourage others to bring lawsuits in respect of products. Aegon Bank has established litigation policies to deal with the claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Bank will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers have been treated fairly, and to respond to matters raised by policyholders and their representatives. There is a risk that Aegon Bank is not able to resolve some or all such matters in the manner that it expects. In certain instances, Aegon Nederland subsidiaries modified business practices in response to such inquiries or the findings thereof. Regulators may seek fines or other monetary penalties or changes in the way Aegon Bank conducts its business. Aegon Bank has defended and Aegon Bank intends to continue defending itself vigorously when Aegon Bank believes claims are without merit.

Lawsuits have been brought against providers of securities leasing products ('aandelenlease producten'). Although sales of securities leasing products ended more than a decade ago, litigation relating to these products has resurfaced. In 2016, the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that the financial institution was liable if a broker ('remisier') that advised on the sale of the institution's products, was not properly licensed.

In July 2016, consumer interest group Platform Aandelenlease filed a class action claim against Aegon Bank regarding Aegon's securities leasing product Sprintplan. Allegations include, among other things, a lack of a proper licence of the brokers involved. In February 2020 the Court of Appeal rejected all claims of PAL. PAL may appeal in cassation against this ruling.Although the last Sprintplan expired more than a decade ago and there is a long history of litigation regarding security leasing products – including the two prior class actions regarding Sprintplan –, it cannot be excluded that these proceedings might have a material adverse effect on Aegon Bank's results of operations or financial position. In addition, Aegon Bank is involved in claims for compensation and the cancellation or nullification of contracts concerning the Vliegwiel product, a variation on securities leasing products. Currently, proceedings are pending before the Dutch courts and the Complaint Institute for Financial Services ('Klachteninstituut Financiële Dienstverlening'), with numerous cases having been initiated by Leaseproces B.V., a company that represents a large number of claimants.

25. Transfers of financial assets

Transfers of financial assets occur when Aegon Bank transfers contractual rights to receive cash flows of financial assets or when Aegon Bank retains the contractual rights to receive the cash flows of the transferred financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in that arrangement.

In the normal course of business Aegon Bank is involved among others in the following transactions:

- Transferred financial assets that are not derecognized in their entirety:
  - Securities lending; whereby Aegon Bank legally (but not economically) transfers assets and receives cash and non-cash collateral. The transferred assets are not derecognized. The obligation to repay the cash collateral is recognized as a liability. The non-cash collateral is not recognized on the statement of financial position, and
- Transferred financial assets that are derecognized in their entirety and Aegon Bank does not have a continuing involvement (normal sale);
- Transferred financial assets that are derecognized in their entirety, but where Aegon Bank has a continuing involvement:
  - Securitizations whereby mortgage loans are transferred to a securitization vehicle which is not part of the Group and where Aegon Bank has a continuing involvement in the transferred assets.
- Collateral accepted in the case of securities lending, reverse repurchase agreement and derivative transactions;
- Collateral pledged in the case of (contingent) liabilities, repurchase agreements, securities borrowing and derivative transactions.

The following disclosures provide details for transferred financial assets that are not derecognized in their entirety, transferred financial asset that are derecognized in their entirety, but where Aegon Bank has a continuing involvement and assets accepted and pledged as collateral.

25.1. Assets pledged

Aegon Bank is required to pay cash for margin calls to be able to trade in derivatives on the securities markets. Aegon Bank is required to hold a certain percentage of its assets relating to its banking activities in an account with the DNB. Refer to note 5 "Cash" for more information.

The collateral value of the collateral posted is EUR 424 million (2018: EUR 754 million). The difference between the collateral value and ECB loans is available as additional credit facility (2019: EUR 424 million; 2018: EUR 754 million).

As part of Aegon Bank's mortgage loan funding program, EUR 2.7 billion (2018: EUR 2.7 billion) have been pledged as security for notes issued (refer to note 11 'Borrowings')

26. Offsetting, enforceable master netting arrangements and similar arrangements

The table below provides details relating to the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities.

Financial assets and liabilities are offset in the statement of financial position when Aegon Bank has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously.

Aegon Bank mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities of Aegon Bank to facilitate Aegon Bank's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon Bank or its counterparty. Transactions requiring Aegon Bank or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2019				Related amounts not set off in the statements of financial position		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Financial instruments	Cash collateral received (excluding surplus collateral)	**Net amount**
Derivatives	159.763	-	**159.763**	159.763	-	**-**
At December 31	**159.763**	**-**	**159.763**	**159.763**	**-**	**-**

2018				Related amounts not set off in the statements of financial position		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Financial instruments	Cash collateral received (excluding surplus collateral)	**Net amount**
Derivatives	214.897	-	**214.897**	214.897	-	**-**
At December 31	**214.897**	**-**	**214.897**	**214.897**	**-**	**-**

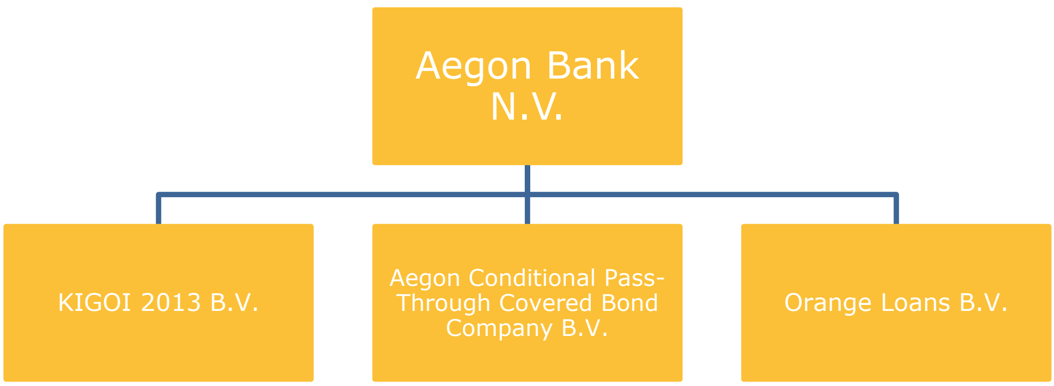
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2019	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	**Net amounts of financial liabilities presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral pledged	
Derivatives	558.205	-	**558.205**	159.763	398.443	**-**
At December 31	**558.205**	-	**558.205**	**159.763**	**398.443**	**-**

2018	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	**Net amounts of financial liabilities presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral pledged	
Derivatives	344.465	-	**344.465**	214.897	129.423	**144**
At December 31	**344.465**	**-**	**344.465**	**214.897**	**129.423**	**144**

27. Group companies

The organization chart of Aegon Bank N.V. and its principal subsidiary at year-end 2019 was as follows:



Wholly owned subsidiaries

Orange Loans B.V. was incorporated during 2015. Orange Loans B.V. contains a part of the consumer loan portfolio of Aegon Bank N.V. and is located in the Netherlands.

Aegon Bank has issued a statement of liability pursuant to Section 403 of Book 2 of the Dutch Civil Code for Orange Loans B.V.

Investments in structured entities

KIGOI 2013 B.V. and Aegon Conditional Pass-Through Covered Bond Company B.V. are not subsidiaries of Aegon Bank N.V.. Since Aegon Bank N.V. has control over the structured entities, the special purpose entities have been consolidated as group companies (see also note 2.3).

The structured entities relate to the securitization of mortgage loans and private loans. The contractual agreements with these entities do not include provisions in which Aegon Bank N.V. could be required to provide financial support in certain circumstances. Aegon Bank N.V. has not provided, nor has intentions to provide, financial or other support without having a contractual obligation to do so.

28. Related party transactions

Aegon Bank N.V. undertakes a range of transactions with entities in the Aegon N.V. group; the principal ones are described below.

Aegon Bank N.V. has identified the following associates as related parties:

- Aegon N.V.
- Aegon Nederland N.V.
- Aegon Levensverzekering N.V.
- Aegon Hypotheken B.V.
- Amvest Vastgoed B.V.
- Orange loans B.V.
- Aegon Investment Management B.V.
- Aegon Derivatives N.V.
- Aegon Custody B.V.

Aegon N.V.

Aegon Bank N.V. is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Aegon Bank N.V. is jointly and severally liable for all tax liabilities of the entire tax grouping.

Aegon N.V. granted a loan in relations to the collateral of foreign exchange transactions to Aegon Bank. This loan totals a receivable of EUR 3.2 million in 2019 (2018: EUR 13.8 million payable).

Aegon Nederland N.V.

Employees of Aegon Bank N.V., including key management personnel, may make use of financing and insurance facilities at prices available to agents. The benefit to the employees is equivalent to the margin made by agents. The conditions for these products are the same for key management personnel and other staff.

Aegon Bank N.V. offers products to employees of Aegon Nederland N.V., including key management personnel of Aegon Bank N.V. itself, on the same terms and conditions as for other members of staff.

Aegon Nederland N.V. provides Aegon Bank N.V. with administrative support and facilities at cost. All transactions with group companies pass through Aegon Bank N.V. and are accounted for in the current account with Aegon Bank N.V.. Total recharged expenses in 2019 were EUR 36.1 million (2018: EUR 33.9 million).

At the end of the year, Aegon Bank N.V. had a current account asset from Aegon Nederland N.V. of EUR 5.1 million (2018: EUR 12.4 million asset). EUR 0.3 million (2018: 0.2 million) of interest on the intercompany current account was charged through the income statement in 2019.

Aegon Bank N.V. did not pay a dividend to Aegon Nederland N.V. in 2019 (2018: no dividend). During 2019 Aegon Bank received a capital injection of EUR 75 million from Aegon Nederland N.V. (2018: 50 million).

Aegon Levensverzekering N.V.

In 2019 Aegon Levensverzekering N.V. sold mortgages to Aegon Bank N.V. with a total market value of EUR 602 million. During 2018 no mortgages were sold between Aegon Bank and Aegon Levensverzekering N.V.

Aegon Hypotheken B.V.

As of 2018 the mortgages held by Aegon Bank N.V. are managed and administered by Aegon Hypotheken B.V. The recharge for these services was EUR 16.5 million (2018: EUR 15.1 million).

Aegon Hypotheken has originated mortgages for Aegon Bank for a total amount of EUR 943 million (2018: EUR 1,315 million). At the end of the year, Aegon Bank N.V. had a current account liability to Aegon Hypotheken B.V. of EUR 77.3 million (2018: liability EUR 92.3 million). No interest is charged regarding this account liability.

Aegon Bank N.V. offers a 'Banksparen' mortgage product in cooperation with Aegon Hypotheken B.V. Aegon Hypotheken B.V. paid Aegon Bank N.V. EUR 5.1 million for this in 2019 (2018: EUR 3.6 million). The recharges are on normal commercial terms.

Amvest Vastgoed B.V.

During 2015 Aegon Bank N.V. entered into a credit facility with Amvest Vastgoed B.V. amounting to EUR 50 million. As per year end the outstanding balance amounts to EUR 46.4 million (2018: EUR 45.4 million). The interest received on the facility amounts to EUR 1.0 million (2018: EUR 1.1 million). Amvest Vastgoed B.V. is a 50% joint venture of Aegon Nederland N.V..

Orange loans B.V.

Orange loans B.V. invests on behalf of Aegon Bank N.V. in UK originated consumer loans. These investment activities are funded through an intercompany loan between Aegon Bank N.V. and Orange loans B.V.. As per year end 2019 the loan amounted to EUR 702 million. (2018: EUR 660 million). The loans is rolled forward on a (bi-)monthly basis. the coupon of the loan is based on an one month Libor + 100 basis points.

Aegon Investment Management B.V./Aegon Derivatives N.V./Aegon Custody B.V.

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and Aegon Derivatives N.V. and securities custody through Aegon Custody B.V. Costs are recharged on normal commercial terms. The recharge was EUR 0.8 million (2018: EUR 1.2 million). Aegon Bank N.V. has received cash collateral on derivative positions via Aegon Derivatives N.V., see also note 6.

29. Events after the statement of financial position date

Since January 2020, the Coronavirus disease (COVID-19) outbreak is causing significant disruption to society, impacting our customers, employees, suppliers and the operations of Knab in general. The health and wellbeing of our customers and employees is our foremost concern.

In order to continue to serve our customers the best we can, Knab has invoked its business continuity plans, which involves working from remote locations to help ensure the safety and well-being of its staff, as well as its capability to support its customers and maintain its business operations.

Management of Knab is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its impact on Aegon Bank. The most significant risks Knab faces are related to interest rate risk, credit risk and liquidity risk, as described in section 4.4 explaining Aegon Bank's approach to risk management.

The notes to Aegon Bank's financial statements include elaborate descriptions and related financial market sensitivities. At the date of this report it is too early to estimate the full impact of the COVID-19 outbreak, given all uncertainty on future developments.

Aegon Bank monitors the inflow and outflow of savings deposits on a daily basis. We do expect outflows to increase overtime resulting from the effect COVID-19 has on the economy and impacting our customers. Changes in interest rates have led to additional collateral being posted with counterparties. In order to manage potential additional liquidity need, Aegon Bank holds a large proportion of the investments in liquid instruments which can be quickly converted into cash. A daily review of the Liquidity Coverage Ratio is part of the monitoring program.

Interest rate risk is an important risk type inherent to banking activities. Aegon Bank has a substantial hedging program, using interest rate swaps, in place designed to mitigate the impact from changing interest rates. The sensitivity to changing interest rates in explained in section 4.4.2
With regard to the debt securities we experienced initial adverse valuations in the March period (through a decrease in OCI). Since then markets have regained some lost territory.

The mortgages portfolio is to a large extent backed by the NHG-guarantee and has on average a healthy loan-to-value ratio. In addition to this, new mortgage loans have a redemption element therefore value at risk is declining over time. At the moment we have not seen any impact on house prices in the Netherlands. However, if the economy is stressed for a long period of time, this portfolio will also endure losses on the long run as the likelihood of customers with a mortgage loan getting into default increases.

The investments impacted the most by the economic downturn from COVID-19 are the unsecured loans to small and medium enterprises and consumers in the Netherlands, Germany and the United Kingdom. The Expected Credit Loss (ECL) allowance is impacted predominantly by development of GDP and the unemployment rate. Both parameters are expected to be hit hard by the COVID-19 outbreak. From this outlook follows that we expect our ECL allowance to increase significantly.

Governments have announced measures to support SMEs in light of COVID-19 with support packages and leniency through payment holidays. These measures are on top of overarching government stimulus packages. These measures can both have a positive and negative effect on Aegon Bank's financial position. Authoritative statements from ESMA, EBA and the IASB foundation all cautioned not to assign the Significant Increase in Credit Risk denomination to loans with related payments holidays stemming from COVID-19.

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

Except for the event disclosed before, there are no other post reporting date events and expectations that have not already been taken into account in the directors' report or financial statements.

Financial statements 2019 of Aegon Bank N.V.

Report of the management board

See page 4 of the annual report for the Report of the management board.

Statement of financial position
for the year ended 31 December 2019

(before profit appropriation)

Amounts in EUR thousand	Note	31-12-2019	31-12-2018
Assets			
Cash	3	1.904.003	1.268.659
Amounts due from banks	4	69.931	50.127
Mortgage loans and other loans	5	12.630.546	11.183.907
Group companies	6	8.504	6.464
Financial assets measured at fair value through other comprehensive income	7	1.062.191	1.314.614
Derivatives	8	159.763	214.897
Other assets and receivables	9	77.260	97.770
Total assets		**15.912.198**	**14.136.438**
Equity and liabilities			
Savings deposits	10	11.535.813	10.585.775
Borrowings	11	2.730.934	2.243.797
Derivatives	8	561.575	347.822
Net deferred tax liabilities	12	74.579	67.301
Provisions	13	10.504	10.145
Other liabilities and accruals	14	260.370	245.980
Total liabilities		**15.173.775**	**13.500.819**
Equity	15	738.423	635.619
Total equity and liabilities		**15.912.198**	**14.136.438**

Income statement
for the year ended 31 December 2019

Amounts in EUR thousand	2019	2018
Income		
Interest income calculated using the effective interest method	350.626	312.278
Other interest income	-	500
Interest expense calculated using the effective interest method	-86.102	-86.092
Other interest expense	-67.888	-61.350
Net interest income	**196.636**	**165.336**
Fee and commission income	17.292	12.523
Fee and commission expense	-1.886	-1.739
Net fee and commission income	**15.406**	**10.784**
Result from financial transactions	9.658	-12.473
Impairment losses	-35.444	-33.178
Total income	**186.256**	**130.469**
Expenses		
Employee expenses	24.872	22.971
Other operating expenses	124.794	116.829
Total expenses	**149.666**	**139.800**
Income / (loss) before tax	**36.590**	**-9.331**
Income tax	-11.939	9.886
Net income attributable to the parent company	**24.651**	**555**
Net income group companies	1.978	5.140
Net income	**26.629**	**5.695**

Notes to the company financial statements

Notes to the financial statements

1. General information

Aegon Bank N.V. ('Aegon Bank'), incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and filed under number 30100799 at the Chamber of Commerce in Amsterdam, under its registered address at Thomas R. Malthusstraat 1-3, 1066 JR Amsterdam. Aegon Bank is a wholly-owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'), established in The Hague. Aegon Bank's ultimate holding company is Aegon N.V. in The Hague.

Aegon Bank and its group companies specialise in developing, selling and servicing savings and investment products.

2. Significant accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Dutch Civil Code. Based on article 2:362.8 of the Dutch Civil Code, the valuation principles applied are based on International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as used for the preparation of the consolidated financial statements of Aegon Bank.

For the accounting policies we refer to the accounting policies set out in note 2 'Significant accounting policies' of the consolidated financial statements. These also apply to the separate financial statements unless stated otherwise.

For disclosures on risk management we refer to note 4 'Risk Management' of the consolidated financial statements.

2.2. Group companies

The group companies are stated at their net asset value, determined on the basis of IFRS as applied in the consolidated financial statements of the Group. For details on the accounting policies applied for the group companies, refer to the consolidated financial statements.

3. Cash

Refer to note 5 'Cash' of the consolidated financial statements for more information.

4. Amounts due from banks

	2019	2018
Bank accounts	69.931	50.127
Total	**69.931**	**50.127**

Amounts due from banks comprise receivables from banks in the Netherlands and abroad and cash collateral provided.

Bank accounts are payable on demand. The carrying amounts disclosed reasonably approximate the fair values at year-end.

5. Mortgage loans and other loans

	2019	2018
Loans to the private sector		
- Mortgage loans	10.659.239	9.619.701
- Loans to private individuals and Small and Medium Enterprise loans	792.914	685.043
- Other loans	1.178.394	879.164
Total	**12.630.546**	**11.183.907**

Fair value	13.229.082	11.679.676

	2019	2018
Current	2.520.994	1.987.979
Non-current	10.109.553	9.195.928
Total	**12.630.546**	**11.183.907**

6. Group companies

	2019	2018
At January 1	**6.464**	**203**
Effect of change in accounting policies	-	1.122
Restated group companies as at January 1	**6.464**	**1.325**
Net income / (loss) for the financial year	2.040	5.140
Total	**8.504**	**6.464**

For a list of names and locations of the most important group companies, refer to note 27 of the consolidated financial statements.

The effect of change in accounting policies relates to the net impact after tax of the implementation of IFRS 9 for Orange loans.

7. Other financial assets

	2019	2018
Financial assets at fair value through other comprehensive income (FVOCI)	1.062.191	1.314.614
Total financial assets, excluding derivatives	**1.062.191**	**1.314.614**

2019	FVOCI	**Total**	Fair value
Debt securities	1.062.191	1.062.191	1.062.191
At December 31	**1.062.191**	**1.062.191**	**1.062.191**

2018	FVOCI	**Total**	Fair value
Debt securities	1.314.614	1.314.614	1.314.614
At December 31	**1.314.614**	**1.314.614**	**1.314.614**

	2019	2018
Current	469.112	261.567
Non-current	593.079	1.053.047
Total financial assets, excluding derivatives	**1.062.191**	**1.314.614**

Movement schedule financial assets, mortgage loans, other loans

2019	**Shares FVTPL**	**Debt securities FVOCI**	**Debt securities FVPL**	**Mortgage loans**	**Private loans**	**Total**
At January 1	**-**	**1.314.613**	**-**	**9.619.701**	**1.564.206**	**12.498.521**
Acquisitions	-	-	-	1.770.370	841.302	2.611.672
Redemptions and sales	-	-251.125	-	-932.646	-462.590	-1.646.361
Unrealized gains and losses	-	1.830	-	278.247	-	280.078
Amortizations through income statement	-	-3.759	-	-74.897	-750	-79.407
Realized gains and losses	-	502	-	-	1.464	1.966
Impairment (losses) / reversals	-	129	-	-1.536	-34.037	-35.444
FX and other movements	-	-	-	-	61.713	61.713
At December 31	**-**	**1.062.191**	**-**	**10.659.239**	**1.971.308**	**13.692.738**

2018	**Shares FVTPL**	**Debt securities FVOCI**	**Debt securities FVPL**	**Mortgage loans**	**Private loans**	**Total**
At January 1	**180**	**1.776.640**	**-**	**9.118.864**	**1.105.638**	**12.001.322**
Effect of change in accounting policies	-	-184.469	184.469	242	-12.517	-12.276
Restated balance as at January 1	**180**	**1.592.171**	**184.469**	**9.119.106**	**1.093.121**	**11.989.046**
Acquisitions	-	143.292	-	1.447.448	791.190	2.381.931
Redemptions and sales	-180	-417.489	-184.232	-893.166	-275.737	-1.770.804
Unrealized gains and losses	-	-8.951	-	33.710	-8.031	16.729
Amortizations through income statement				-87.987	-911	-88.898
Realized gains and losses	-	4.963	-237	-		4.726
Impairment (losses) / reversals	-	627	-	590	-35.426	-34.209
At December 31	**-**	**1.314.613**	**-**	**9.619.701**	**1.564.206**	**12.498.521**

8. Derivatives

Refer to note 9 ‘Derivatives’ of the consolidated financial statements for more information.

9. Other assets and receivables

	2019	2018
Receivables	33.099	38.136
Accrued income	44.161	59.634
Total	**77.260**	**97.770**

9.1. Receivables

	2019	2018
Investment debtors	13.130	13.830
Current account with group companies	17.666	22.505
Other	2.303	1.801
Total	**33.099**	**38.136**
Current	33.049	37.940
Non-current	50	196
Total	**33.099**	**38.136**

The carrying amounts disclosed reasonably approximate the fair values at year-end.

Information on provision for doubtful debts

This provision relates to investment debtors and other receivables.

	2019	2018
At January 1	-	450
Used during the year	-	-450
At December 31	**-**	**-**

9.2. Accrued income

	2019	2018
Accrued interest	44.161	59.634
At December 31	**44.161**	**59.634**

The account 'Accrued income' is classified entirely as current assets. The carrying amounts disclosed reasonably approximate the fair values at year-end.

10. Savings deposits

Refer to note 11 'Savings deposits' of the consolidated financial statements for more information.

11. Borrowings

	2019	2018
Covered bond and notes	2.730.934	2.243.797
At December 31	**2.730.934**	**2.243.797**

	2019	2018
Current	749.224	13.810
Non-current	1.981.710	2.229.987
Total	**2.730.934**	**2.243.797**
Fair value	2.733.360	2.249.280

	2019	2018
At January 1	2.243.797	2.976.098
Acquisitions	497.146	13.810
Disposals	-13.810	-749.677
Amortization	3.801	3.566
At December 31	**2.730.934**	**2.243.797**

Refer to note 12 'Borrowings' of the consolidated financial statements for more information.

12. Deferred tax

Refer to note 13 'Net deferred tax liabilities' of the consolidated financial statements for more information.

13. Provisions

Refer to note 14 'Provisions' of the consolidated financial statements for more information.

14. Other liabilities and accruals

	2019	2018
Other liabilities	199.003	163.069
Accruals	61.366	82.911
Total	**260.370**	**245.980**

14.1. Other liabilities

	2019	2018
Investment creditors	715	157
Income tax payable	22.943	25.662
Current account with group companies	77.343	92.261
Social security and taxes payable	7.895	5.395
Other creditors	90.108	39.594
Total	**199.003**	**163.069**
Current	199.003	163.069
Non-current	-	-
Total	**199.003**	**163.069**

The carrying amounts of financial items disclosed reasonably approximate fair value at year-end.

14.2. Accruals

	2019	2018
Accrued interest	61.366	82.911
Total	**61.366**	**82.911**
Current	61.366	82.911
Non-current	-	-
Total	**61.366**	**82.911**

This item comprises interest payable and is classified entirely as current liabilities. The carrying amounts disclosed reasonably approximate fair value at year-end.

15. Equity

	2019	2018
Share capital	37.437	37.437
Share premium	476.751	401.751
Revaluation reserves	9.360	7.710
Retained earnings	178.746	173.526
Participations	9.500	9.500
Net income / (loss)	26.629	5.695
Total	**738.423**	**635.619**

Movement in share premium includes a capital injection of EUR 75 million (2018: EUR 50 million).

15.1. Share capital

	2019	2018
Authorized share capital	90.000	90.000
Not issued	52.563	52.563
Total	**37.437**	**37.437**

The authorized share capital is EUR 90 million, divided into 90,000 ordinary shares of EUR 1,000.00 nominal value each, of which 37,437 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2019 and 2018, Aegon Bank N.V. did not pay dividend to Aegon Nederland N.V.

15.2. Statement of changes in equity

Amounts in EUR thousand 2019	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**401.751**	**179.221**	**7.710**	**9.500**	**635.619**
Net income / (loss) recognized in the income statement	-	-	26.629	-	-	26.629
Other comprehensive income / (loss)	-	-	-	1.650	-	1.650
Total comprehensive income / (loss)	**-**	**-**	**26.629**	**1.650**	**-**	**28.279**
Capital injection	-	75.000	-	-	-	75.000
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**476.751**	**205.375**	**9.360**	**9.500**	**738.423**

2018	Share capital	Share premium	Retained earnings	Revaluation reserves	Knab participations	Total
At January 1	**37.437**	**351.751**	**181.724**	**14.789**	**9.500**	**595.200**
Effect of change in accounting policies			-7.723	-366		-8.089
Restated balance as at January 1	**37.437**	**351.751**	**174.001**	**14.423**	**9.500**	**587.111**
Net income / (loss) recognized in the income statement	-	-	5.695	-	-	5.695
Other comprehensive income / (loss)	-	-	-	-6.712	-	-6.712
Total comprehensive income / (loss)	**-**	**-**	**5.695**	**-6.712**	**-**	**-1.017**
Capital injection	-	50.000	-	-	-	50.000
Dividends paid on participations	-	-	-475	-	-	-475
At December 31	**37.437**	**401.751**	**179.221**	**7.710**	**9.500**	**635.619**

The effect of change in accounting policies is the result of the adoption of IFRS 9 by Aegon Bank in the consolidated financial statements.

Refer to note 16 ‘Equity’ of the consolidated financial statements for more information on equity.

16. Employees

Refer to note 20 'Employee expenses and other operating expenses' of the consolidated financial statements for information on employee expenses and number of FTEs employed.

17. Remuneration Statutory and supervisory board

Refer to note 20 'Employee expenses and other operating expenses' of the consolidated financial statements for information on the remuneration of the Statutory and supervisory board.

18. Remuneration Independent Auditor

Refer to note 20 'Employee expenses and other operating expenses' of the consolidated financial statements for information on the remuneration of the independent Auditor.

19. Related party transactions

Aegon Hypotheken B.V. and Aegon Levensverzekering N.V. received interest on mortgages from customers, which were transferred to Saecure 13 NHG B.V.. The recharges amounted to EUR 3.3 million for 2018. In February 2018 the Saecure 13 notes were redeemed.

Refer to note 28 'Related party transactions' of the consolidated financial statements for information on the related party transactions.

20. Commitments and contingencies

Refer to note 24 'Commitment and contingencies' of the consolidated financial statements for more information.

21. Events after the statement of financial position date

Except for the event disclosed before and the Coronavirus disease outbreak (refer to note 29 'Events after the reporting period' of the consolidated financial statements), there are no other post reporting date events and expectations that have not already been taken into account in the directors' report or financial statements.

22. Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year as follows:

To be added to the retained earnings	26,629
Net result	**26,629**

This proposal has not yet been incorporated in the financial statements.

Amsterdam, 15 April 2020

Supervisory board	Statutory board
Paul de Kroon	Nadine Klokke
Gabrielle Reijnen	Mike de Boer
Willem Horstmann	Ebbe Negenman
Han Gerrits	

N.J.A. Klokke

M.R. de Boer

E.G. Negenman

P.M. de Kroon

W. Horstmann

G.E.A. Reijnen

J.W.N. Gerrits

Other information

Statutory provisions regarding profit appropriation

Appropriation of profit will be determined in accordance with article 23 of the Articles of Association of Aegon Bank N.V. The relevant provisions read as follows:

- The profit made in any financial year will be at the disposal of the Annual General Meeting.
- Distribution of profit shall take place after adoption of the financial statements which show this to be permissible.
- The Annual General Meeting may decide to an interim distribution, if the requirements are met as evidenced by an interim statement of net assets pursuant to Section 2:105(4) of the Dutch Civil Code.
- The Annual General Meeting may resolve to make interim distributions and/or distributions charged to a reserve of the company.
- Distributions on shares may only take place up to the amount of the distributable equity.

Independent auditor's report

To: the general meeting and the supervisory board of Aegon Bank N.V.

Report on the financial statements 2019

Our opinion

In our opinion:

- the consolidated financial statements of Aegon Bank N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2019 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements of Aegon Bank N.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2019 of Aegon Bank N.V., Amsterdam. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the following statements for 2019: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2019;
- the company income statement for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

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The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Aegon Bank N.V. in accordance with the European Union Regulation on specific requirements regarding the statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

Overview and context

Aegon Bank N.V. is a bank that provides payment, savings and investment products under two labels: Aegon Bank and Knab. The Group invests in mortgage loans, loans to private individuals and Small and Medium Enterprise ('SME') loans and debt securities. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. Note 3 'Critical accounting estimates and judgment in applying accounting policies' of the consolidated financial statements of the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the expected credit loss allowance for mortgage loans and other loans and the fair value of 'level 2' and 'level 3' financial instruments, we particularly considered these to be key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we identified the application of macro fair value hedge accounting as a key audit matter due to the detailed, formal and technical requirements in relation to the application of hedge accounting and the significance of the Group's exposure brought under hedge accounting.

We ensured that our audit team included the appropriate skills and competences, which are needed for the audit of a bank. We, therefore, included specialists in the areas of IT, taxation and hedge accounting, as well as experts in the areas of valuation and credit modelling in our team.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: €5,900,000

Audit scope

- We conducted audit work on Aegon Bank N.V. and all of its subsidiaries.
- The investment portfolios were managed by a related party within the Aegon group. We made use of the audit work performed by the component auditor.
- For information technology general controls ('ITGCs'), consumer and SME loan processing and administration services, the Group made use of several service organisations, for which we needed to rely on the work of other auditors.

Key audit matters

- Expected credit loss allowance for mortgage loans and other loans
- Fair value of 'level 2' and 'level 3' financial instruments
- Application of macro fair value hedge accounting.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€5,900,000 (2018: €4,800,000).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 2.5% of net interest income.
Rationale for benchmark applied	We performed a stakeholders' analysis that includes the perspective of the parent company, customers, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. We consider, as a point of reference, that (average) profit before tax is the preferred materiality benchmark as it generally is seen as best representing the common interests of the stakeholders. However, given the variable trend of the Group's results and the existence of several one-off results in the last few years, we do not consider profit before tax to be the most appropriate benchmark.

	In assessing other benchmarks, we believe net interest income, being an important financial metric for the general performance of a bank that reflects the link between return on assets and cost of funding, is an appropriate alternative benchmark to use.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €295,000 (2018: €240,000), as well as misstatements below that amount that, in our view, warrant reporting for qualitative reasons.

For balance sheet reclassifications, we considered a higher amount warranted, given the relatively large size of the balance sheet compared to the income statement. We agreed with the supervisory board to report balance sheet reclassifications above €7.9 million.

The scope of our group audit

Aegon Bank N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Aegon Bank N.V.

All components as disclosed in note 27 'Group companies' of the consolidated financial statements form an integral part of the administration of Aegon Bank N.V. As a result, the group audit team performed the audit work on these components, except for the investment portfolios including financial assets measured at fair value through other comprehensive income and derivatives. In doing so, the audit team selected specific balances and transactions within the Group for which an audit of financial information was considered necessary. Due to this approach, the material and relevant line items, comprising relevant balances and transactions, were in scope of our audit. Since the investment portfolios were managed by a related party within the Aegon group, we made use of the audit work performed by the component auditor.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

In addition to issuing written instructions, we developed an oversight strategy for the component based on its significance to the Group and/or its risk characteristics. These strategies included procedures such as regular meetings and discussions with the component auditor to challenge and review significant audit matters and judgements within the component team's audit file, extensive reporting to the group team, and closing meetings.

Banks in general depend heavily on the reliability and continuity of their information technology (IT) environment. We engaged our IT specialists to assist us in assessing the ITGCs at the Group to the extent relevant and for the purpose of our audit. This included the assessment of policies and procedures applied by the Group to ensure IT operates as intended and provides reliable data for financial reporting purposes. Furthermore, our IT specialists supported us in our key report testing and IT application controls testing. Our approach was tailored towards the fact that the Group makes use of several service organisations in its day-to-day operations.

We obtained evidence over the controls performed by the service organisations through, amongst others, obtaining and assessing ISAE 3402 reports from other auditors. We found that we could rely on the work of these auditors for the purpose of our audit.

The Group has outsourced its consumer and SME loan processing and administration services to external parties. In our assessment of the consumer and SME loan portfolio balances and related transactions, we obtained sufficient and appropriate evidence over the controls performed by the service organisations through assessing the ISAE 3402 type 2 reports. These reports were issued by external auditors of whom we have assessed their independence, capability and objectivity.
In addition, we reconciled the balances and positions to the service reports received from the external parties and reconciled a sample of individual loans to the underlying contracts. Based on these procedures performed, we concluded that we could rely on the work of these auditors for the purpose of our audit, supplemented by our own procedures.

By performing the procedures above, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit are:

In respect of fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

In respect of non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the management board with the oversight of the supervisory board. We refer to section 4 'Risk Management' of the annual report where the management board included its risk assessment and risk control measures. We also refer to section 'report of the management board' where the management board reflects thereon.

Risk of fraud

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks, tested high-risk manual journal entries and evaluated key estimates and judgements for bias by management, and finally we incorporated elements of unpredictability in our audit. We refer to the key audit matters on the expected credit loss allowance for mortgage loans and other loans and the fair value of 'level 2' and 'level 3' financial instruments, which are both examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

Risk of non-compliance with laws and regulations

There is an industry risk that emerging compliance or litigation areas have not been identified and or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory processes.

In line with auditing standard 250 we made a distinction between laws and regulations in our audit approach:

- Laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements.
  For this category, in line with the requirements as included in Standard 250, we obtained sufficient audit evidence regarding compliance with the provision of those laws and regulations.
- Laws and regulations that do not have a direct effect on the determination of material amounts and disclosures in the financial statements, but where compliance may be fundamental to the operating aspect of the business, to the Group's ability to continue its business or to avoid material penalties.
  For this category, we performed specific procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

We identified that the risk of non-compliance with laws and regulations relates mainly to the laws and regulations that have an indirect impact on the financial statements, such as anti-money laundering and anti-terrorist financing regulations, as well as regulations linked to the operating licenses for the banking activities (including the Financial Supervision Act ('Wet op het financieel toezicht').
We inquired of management and/or those charged with governance as to whether the Group is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities. We refer to the disclosure on page 9 with respect to the instruction received from the Dutch Central Bank and the disclosure on page 10 with respect to the Know Your Customer project.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we describe the key audit matters and include a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

We note that the key audit matters related to 'Expected credit loss allowance for mortgage loans and other loans', 'Fair value of 'level 2 and 3' financial instruments' and 'Application of macro fair value hedge accounting' are recurring. These relate to the Group's primary business objectives and did not change significantly compared to prior year.

Key audit matter	*Our audit work and observations*
Expected credit loss allowance for mortgage loans and other loans *Refer to the introductory paragraph in note 2 'Significant accounting policies' on page 36, note 2.8 'Financial assets' on page 40 of the summary of significant accounting policies, note 3.5 'Measurement of the expected credit loss allowance' on page 59 of the critical accounting estimates and judgement in applying accounting policies, notes 4.4.4 'Expected credit loss measurement' on page 68, 4.4.5 'Significant increase in credit risk (SICR)' on page 69, 4.4.6 'Definition of default and credit-impaired assets' on page 69, 4.4.7 'Measuring ECL – Inputs, assumptions and estimation techniques' on page 70, 4.4.8 'Forward-looking information incorporated in the ECL models' on page 71, 4.4.9 'Write-off policy' on page 74, 4.4.10 'Modification of financial assets' on page 74 and 4.4.11 'Loss allowance' on page 75 and note 7 'Mortgage loans and other loans' on page 91.* As at 31 December 2019, the mortgage loans and other loans amount to €12,609 million (2018: €11,155 million) and the total impairment amounts to €120.9 million (2018: €85.3 million). In line with the requirements of IFRS 9, the Group applies a three-stage expected credit loss impairment model consisting of: • stage 1: recognition of loss allowances measured at an amount equal to the 12-month expected credit losses for performing loans; • stage 2: recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for financial assets with a significant increase in credit risk, but not yet deemed credit-impaired; and	*Control design and operating effectiveness* Our audit procedures over the expected credit loss allowance for mortgage loans and other loans started with gaining an understanding of the Group's internal controls over the credit risk management and impairment processes. We evaluated the governance framework over the development, validation, calibration and implementation of the impairment models. We assessed the model validation procedures and findings performed by the Model Validation team of the Group. We assessed the ISAE 3402 type 2 reports of the service organisations with respect to the consumer and SME loan processing and administration services as described in the section 'The scope of our group audit'. *Assessment of model-based impairments* With support of our internal credit modelling experts, we performed the following procedures on the model-based impairments as at 31 December 2019: • evaluation of the reasonableness of the applied model methodology (including the assumptions regarding PD, LGD, LGN and EAD, applied criteria for significant increase in credit risk, assumptions for the measurement of ECL, and the number and relative weightings of forward-looking scenarios) in line with EU-IFRS and market practice; • evaluation of the definition of default by obtaining management's approach, assessing the conceptual soundness of management's approach in identifying impaired loans and assessing adjustments made when a different definition of default was applied by the service organisations; • evaluation of the macro-economic scenarios and macroeconomic variables applied by challenging these with observable market data;

Key audit matter	*Our audit work and observations*
• stage 3: recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for credit-impaired financial instruments. The Group built separate ECL models for the mortgage loans and private loans, based on the differences in characteristics. As at 31 December 2019, the mortgage loans represented a gross carrying amount of €10.6 billion (loan loss allowance of €1.9 million) and the private loans represented a gross carrying amount of €1.6 billion (loan loss allowance of €117.2 million). Considering the limited (remaining) credit risk in other loans this is not in scope of this key audit matter. *Model methodology and inputs* In the ECL models, the Group utilises, amongst others, probability of default (PD), loss-given default (LGD), loss-given no-cure (LGN) and exposure at default (EAD). For the definition of these variables, refer to note 4.4.7 'Measuring ECL – Inputs, assumptions and estimation techniques' on page 70 of the financial statements. The critical data elements as input for these models were retrieved from the service organisations or source systems. Apart from these elements, three global macroeconomic scenarios (base, upside and downside) were incorporated into the models and the probability of the scenarios is weighted in order to determine the expected credit losses. *Judgements and estimation uncertainty* The judgements and estimation uncertainty in the loan-loss allowance of mortgage loans and other loans is primarily linked to the following aspects: • determining criteria for significant increase in credit risk; • choosing appropriate models and assumptions for the measurement of ECL; • establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and • establishing groups of similar financial assets for the purposes of measuring ECL.	• testing the input data and data lineage in respect of the critical data elements through testing of IT dependencies and a reconciliation of a sample of input data to the external administrations of the service organisations or source systems; • challenging management on the reasonableness of their provided explanations and evidence supporting the key model parameters by benchmarking them to other market participants; and • partial re-performance of the model assessment procedures performed by the model developers focusing on the more significant tests such as back-testing procedures on key model parameters. Based on the above we assessed the methodology and inputs to be in line with market and industry practice. Furthermore, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, and observed that the disclosures comply with the disclosure requirements included in EU-IFRS.

<table>
<tr><th>Key audit matter</th><th>Our audit work and observations</th></tr>
<tr><td>The significance of the number of accounting policy choices, judgements made by management and the inherent limitations to data inputs required by the loan impairments models, increases the risks of material misstatement. Therefore, we consider this a key audit matter in our audit.</td><td></td></tr>
<tr><td>Fair value of 'level 2' and ;'level 3' financial instruments
Refer to note 2.8 'Financial assets' on page 40, 2.9 'Financial liabilities' on page 43 and 2.10 'Derivatives and hedging strategy' on page 43 of the summary of significant accounting policies, note 3.4 'Fair value hierarchy' on page 55 of the critical accounting estimates and judgment in applying accounting policies, note 8 'Other financial assets' on page 93 and note 9 'Derivatives' on page 94.

As at 31 December 2019, the items valued at fair value in the financial statements concern:
• debt securities amounting to €1,062.2 million; and
• derivatives amounting to €159.8 million on the asset side and €561.6 million on the liability side of the balance sheet.

In the determination of the fair value of financial instruments, the fair value hierarchy is applied:
• level 1: valuations based on quoted prices (unadjusted) in active markets;
• level 2: valuations based on other than quoted prices included within level 1 that are observable either directly or indirectly;
• level 3: valuations based on unobservable inputs for the asset.

The areas that involved significant audit effort and judgement relate to the level 2 and level 3 investments, since these are valued using model valuations instead of quoted prices in an active market.

The majority of the Group's derivatives fall within level 2 of the fair value hierarchy, except for €3.4 million of bifurcated embedded derivatives that fall under level 3. Given that the level 3 position is below our overall materiality level, this is not in scope of this key audit matter.</td><td>Control design and operating effectiveness
We assessed the design and tested the operating effectiveness of internal controls over the investments process including management's selection and approval of valuation methodologies and assumptions, controls over data inputs including trade execution and security set-up within the administration systems and management's monitoring of valuations provided by third parties. We determined that we could rely on these controls for the purpose of our audit.

Substantive audit procedures
We, with assistance of our valuation specialists, performed the following procedures to address the valuation of derivatives financial instruments:
• We reconciled the key inputs such as contractual cash flows, nominal amounts, and swap rates to the source system and to external confirmations or third-party statements and determined these to be reconciled.
• We performed an independent valuation of the derivative positions and compared these to the recorded values. We determined that the estimates made by management are within an acceptable range to our own estimates.
• We assessed whether the Company is entitled to the collateral received as part of derivative financial instrument transactions through reconciliation to external confirmations or third-party statements. We determined that the Company appropriately accounted for the collateral received in relation to its derivative portfolio.

For debt securities, we independently obtained market prices from third-party pricing vendors and compared these to management's fair value estimates. We determined that the estimates made by management are within an acceptable range to our independently obtained vendor market prices.</td></tr>
</table>

Key audit matter	Our audit work and observations
Of the debt securities, an amount of €425.5 million falls within level 1 and € 636.8 million within level 2 of the fair value hierarchy. No level 3 debt securities are held as at 31 December 2019. The fair value of such financial instruments (level 2 and level 3 financial instruments) is determined using valuation techniques (such as discounted cash flow models) and the use of assumptions and estimates such as market prices of comparable instruments, credit risk, volatilities, correlation and discount rates. The judgement applied by management mainly relates to: • the assessment of the appropriateness of quotes obtained from the brokers for debt securities with no quoted market prices to determine the most appropriate estimate of fair value; and • the discount rates and actuarial assumptions used in the valuation of the bifurcated embedded derivatives. Given the level of judgement and the related estimation uncertainty around fair valuation with respect to level 2 and level 3 valuations in combination with the size of the debt securities portfolio and the derivatives portfolio held as an economic hedge, we consider the fair value valuation of level 2 and level 3 financial instruments as a key audit matter.	Finally, we assessed the completeness and accuracy of the disclosures in the Group's financial statements relating to the fair value of financial instruments and observed that the disclosure complies with the requirements included in EU-IFRS.
Application of macro fair value hedge accounting *Refer to note 2.10 'Derivatives and hedging strategy' on page 43 of the summary of significant accounting policies, note 7 'Mortgage loans and other loans' on page 91, note 9 'Derivatives' on page 94 and note 19 'Result from financial transactions' on page 104.* The Group has designated derivatives used as fair value hedges on interest rate risk in its mortgage portfolio. For 2019, the Group recognised a €278.3 million fair value change on the mortgage portfolio that is offset by the fair value change in the derivatives designated for hedging for an amount of €254.6 million.	*Control design and operating effectiveness* Our audit procedures performed on the Group's application of macro fair value hedge accounting included testing of the internal controls over the monthly preparation of the hedging documentation and calculation of the fair value changes. We determined that we could rely on these controls for the purpose of our audit. *Substantive audit procedures* Our substantive audit procedures on hedge accounting included, amongst others, evaluation of whether the hedge accounting methodology applied by the Company is in accordance with EU-IFRS, with the assistance of our hedge accounting experts. For a sample we assessed: • whether the hedge documentation was in line with the requirements included in EU-IFRS;

Key audit matter	Our audit work and observations
Due to the application of macro fair value hedge accounting under EU-IFRS and 'highly' effective hedging relations, only the total net ineffectiveness is recognised in the income statement, which amounts to €22.0 million. The cumulative fair value impact of the mortgage loans designated in the hedging relationship is €524 million, resulting in a higher carrying value as described in note 7 on pages 91 to 93. As required by EU-IFRS, the Company has to comply with a number of requirements, including: • documenting the hedge relationship in formal hedge documentation; • performing prospective and retrospective (quantitative) effectiveness testing; and • recording any resulting ineffectiveness in the income statement. Given the detailed formal and technical requirements that are applicable to the application of hedge accounting and the significance of the exposures brought under hedge accounting, we consider this a significant element of our audit.	• management's prospective and retrospective effectiveness testing to determine whether the hedge relationships were effective and whether the hedge effectiveness has been calculated accurately; and • the reconciliation of the net amount of hedge accounting ineffectiveness to the hedge adjustment recorded in the income statement. We found the outcome of the effectiveness testing to be consistent with our own calculations and the methodology applied in line with the technical requirements. We found the application of hedge accounting for the purpose of our audit of the financial statements to be appropriate and meeting the requirements of IAS 39 'Financial Instruments'. Furthermore, we assessed the completeness and accuracy of the disclosures relating to hedge accounting and observed that the disclosures comply with the requirements included in EU-IFRS.

Emphasis of matter related to the uncertainty with respect to the effects of the coronavirus (COVID-19)

We draw attention to note 6.2 'Post reporting date events and expectations' and note 29 'Events after the statement of financial position date' in the financial statements in which management has described the possible impact and consequences of the coronavirus (COVID-19) on the Group and the environment in which the Group operates as well as the measures taken and planned to deal with these events or circumstances. This note also indicates that uncertainties remain and that currently it is not reasonably possible to estimate the future impact. Our opinion is not modified in respect of this matter.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the report of the management board;
- the report of the supervisory board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the report of the management board and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Aegon Bank N.V. on 15 May 2013 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 15 May 2013.
Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of six years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 20.2 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the management board and the supervisory board for the financial statements

The management board is responsible for:
- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The management board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 17 April 2020
PricewaterhouseCoopers Accountants N.V.

Dit document is elektronisch ondertekend door:

André Vermeulen

A.R. Vermeulen RA

Appendix to our auditor's report on the financial statements 2019 of Aegon Bank N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.
  Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.