Our financial performance

		2017 (€ million)	2016 (€ million)	% change
Total income	We have three main sources of revenue: fees and commissions, income from the investments we make and – by far the most important – premium payments from our policyholders. We may also have other income from financial transactions (which varies depending on market conditions), or from reinsurance we've bought to cover our own risk.	**57,910**	53,357	+8.5%
Total charges	From this income, we subtract costs. These include claims and benefits paid to our policyholders. We also have our own operating expenses and the commissions we pay when brokers and other intermediaries sell products on our behalf.	**55,689**	52,693	+5.7%
Net income	Before we get to net income, we also have to account for any profit or loss from our associates and joint ventures. Our net income also includes an estimate of our corporate income tax for the year.	**2,361**	586	+303%
Underlying earnings before tax	Alongside net income, we also publish underlying earnings before tax. This strips out variables such as impairments, fair value items, earnings from run-off operations and any gains or losses we make on investments, as well as other income or charges outside the normal course of business. This measure helps investors understand how our businesses themselves are performing.	**2,103**	1,913	+9.9%

Financial targets 2018

We're on course to meet most of our 2018 financial targets. We've already achieved 80% of our planned cost reductions, and we're ahead of our targets on Solvency II, sales and return of capital to shareholders. That said, there's still work to be done on return on equity (RoE). Our RoE is increasing, and selling our run-off businesses removes a significant drag on returns. We also expect a boost from recent cuts in US tax rates.

	Target	Progress by end 2017	Current status
Return on equity	10% by 2018	8.2%	● (orange)
Reduction in operating expenses[1]	€350 million by 2018	€280 million	● (green)
Returning capital to shareholders	€2.1 billion by 2018	€1.5 billion	● (green)
Average annual sales growth	10% by 2018	23%	● (green)
Solid capital position	Solvency II ratio of 150%-200%	201%	● (green)

[1] Based on run-rate annualized expense savings. Figure for end-2017 includes Aegon's recent agreement in US with Tata Consultancy Services.

2017 financial performance

We had a strong financial performance last year. This was due mainly to earnings growth from our main businesses as a result of very favorable financial markets, reductions in expenses and better claims experience in the US. Our businesses in the Americas, Europe and Asia all reported increases in underlying earnings before tax. Net income rose significantly – in part thanks to a one-off gain from the recent cut in US corporate tax rates. Gross deposits were up substantially in 2017 (+44%) – a reflection of the expansion in our UK platform activities and continued growth in our asset management business, though there were net outflows in the US as a result of some contracts being discontinued following our 2015 acquisition of Mercer's retirement plan business. Our businesses are also generating more capital. By the end of 2017, we had excess cash in our holding company of €1.4 billion; this gives us flexibility when it comes to dividends, share buy-backs, new acquisitions or debt repayments.

Note on US tax cuts

Late last year, corporate tax rates in the US were reduced from 35% to 21%. We expect the reduction to have a significant positive effect, particularly on Aegon's earnings and return on equity.

- The cut reduces the amount of (net) tax we're likely to pay in the future; we already booked part of this gain in the fourth quarter of 2017.
- We expect effective tax rates in the US to come down to 16%-18%; benefits will start flowing through to our earnings from 2018. Based on our 2017 results, we expect an increase in our net underlying earnings of approximately $140 million a year.
- Lower tax rates are also expected to generate an extra $100 million a year in capital, and push up return on equity by 55 basis points.
- Tax cuts may mean a one-time increase in our US capital requirements, but we still expect our overall solvency ratio to remain in the upper half of our 150%-200% target range.