

Annual Report 2019
Aegon Investment Management B.V.
Year to 31 December 2019

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Company information

Members of the Management Board

E. van der Maarel

R.R.S. Santokhi

B. Bakker

C. Luning (resigned as per 1 February 2020)

G. Black (resigned as per 3 June 2019)

O. van den Heuvel (resigned as per 1 February 2020)

P.J.G. Smith (resigned as per 1 February 2020)

W.J.J. Peters (resigned as per 1 February 2020)

F.F.F. de Beaufort (resigned as per 1 February 2020)

Secretary

Ms. T.E.J.F. Stassen

Registered Office

Aegonplein 50

2591 TV, The Hague

The Netherlands

Independent Auditor

PricewaterhouseCoopers Accountants N.V.

Fascinatio Boulevard 350

3065 WB, Rotterdam

The Netherlands

Annual report 2019

- Report of Directors
- Financial statements
- Other information

Report of Directors

General information

AEGON Investment Management B.V. (further: 'the Company' or AIM) is a private limited liability company organised under Dutch law and recorded in the Commercial Register of The Hague under its registered address at Aegonplein 50, 2591 TV The Hague. AIM is registered under number 27075825 in the Commercial Register of the Chamber of Commerce and Industries for Haaglanden, The Hague, The Netherlands. The principal activities of the Company are that of management of investment funds and individual portfolio management and investment advice. The Company is incorporated and domiciled in the Netherlands and is regulated by De Nederlandsche Bank (DNB) and Autoriteit Financiële Markten (AFM). The Company is a wholly owned subsidiary of AEGON Asset Management Holding B.V., The Hague.

The Company's mission is to use its investment management expertise to help people achieve a lifetime of financial security. The Company's investment management expertise is aimed at a wide variety of client groups such as institutional clients as well as retail customers in both the Netherlands as well as more broadly in Pan Europe.

Performance of the Company and developments during the year

Performance of the Company

The Company delivered a profit after tax of EUR 16.9 million (2018: profit of EUR 14.6 million). The result over 2019 was slightly behind Directors' expectations for 2019, but a growth compared to the previous year. Total income and cost increased compared to 2018, reflecting the continued growth of the Company.

Revenues predominantly consist of management fees earned from the management of assets for affiliated insurance companies as well as external clients and service fees charged to the investment funds to cover for certain expenses. Fees from management assets for affiliated insurance companies are lower compared to previous year. Fees from Third party clients are higher compared to previous year due to the growth of the assets managed by the Company.

The main expenses of the Company are personnel expenses, investment management services fees, IT expenses and intercompany recharges. The higher costs compared to the previous year are mainly driven by higher personnel expenses and discretionary costs. The aforementioned developments led to a profit after tax of EUR 16.9 million.

As at 31 December 2019, the Company's equity amounted to EUR 60.5 million. Eligible capital amounted to EUR 37.5 million compared to the minimum capital required of EUR 30.8 million. The Company's solvency and liquidity position can be characterized as robust. The capital position throughout the year complies with the capital requirements and the majority of the assets are liquid. As a result, there is no funding need.

Developments of the Company during the year

TKP Investments B.V. (TKPI) was merged with Aegon Investment Management B.V. on January 1, 2019, to form one single legal entity in the Netherlands. Integration of the two companies was a logical step towards increasing our economies of scale, operational efficiency and levels of innovation in a highly competitive market. It will, for example, make it easier to implement processes and automation, reduce costs and comply with new laws and regulatory requirements.

The total opening Asset under Management (AuM) as a result of the merger increased with EUR 25.0 billion from EUR 71.4 billion to EUR 96.4 billion. The fixed income assets increased with

EUR 10.9 billion from EUR 60.0 billion to EUR 70.9 billion. The equity assets under management including real estate assets under management increased with EUR 11.2 billion from EUR 9.6 billion to EUR 20.8 billion. The alternative investments increased with EUR 2.9 billion from EUR 1.8 billion to EUR 4.7 billion.

The purpose of the legal merger was to simplify the governance and improve decision making. A Steering Committee has led the project that ultimately resulted in the legal merger. Many of the supporting functions, like HR, Finance, and Risk, have been successfully merged in 2019, and are now operating in a more efficient way. Following this legal merger, an initiative is now underway to integrate the operational landscape of the fiduciary business with the wider Aegon Asset Management organization as a result of which the Company expects to achieve synergies.

Furthermore, the Company has expanded its third party client base further by combining growth in The Netherlands with attracting new clients from outside of The Netherlands, for example, Germany and Southern Europe. This has resulted in an increase of our third party assets of over EUR 3.9 billion. During 2019, the Company has also launched a number of new propositions, which are expected to contribute to further growth of our asset base.

Investment performance over the full year was reasonable. A number of capabilities performed well during the year and some others (mainly in the core fixed income area) did not perform as well as expected. From an operational perspective, the Company completed a number of actions aimed at upgrading its infrastructure, client service, reducing complexity and enhancing the quality of data and IT. Furthermore, the Company made further steps in implementing an agile way of working.

Developments of the Company in the wider global Aegon Asset Management organisation

At the end of 2019, it has been decided to replace the regional executive committees (e.g. the European Executive Committee that existed during the period 1/1/2018 to 31/1/2020 and that had been delegated by the AIM board to run its day to day business) with a single global management board. It has also been decided to move to a global functional structure, establish four investment platforms (being fixed income, real assets, equity and multi assets & solutions), a single global profit and loss account, compensation pool and one global brand, which will be Aegon Asset Management (AAM). To ensure that the legal entity strategy execution is aligned with AAM's overall strategy, CEO's of AAM's key legal entities such as AIM are members of the AAM Global Management Board. Within the AAM organization, the AIM Board is responsible to conduct business in the manner agreed and determined by the Global Management Board of AAM and in line with the AAM Global Strategy. The AIM Board may decide to delegate specific responsibilities relating to the execution of AIM Board decisions and strategy to AAM Global committees.

General market developments

Economic growth in the Eurozone slowed down in 2019. The economy was impacted negatively by the trade war between the US and China. Especially, economies with large manufacturing sectors, like Germany and Italy, were impacted. Also structural challenges in the automotive sector resulted in a significant economic drag. Germany and Italy only barely avoided a recession in the second half of 2019.

Also the inability of the UK and the EU to agree on a Brexit deal resulted in lower investment and lower exports to the UK. After new elections in the UK at the end of 2019, the government had a sufficient majority to ratify a deal with the EU. This resulted in a formal exit in January 2020.

Despite the slowdown in the manufacturing sector, the services sector has performed well. Also unemployment in the Eurozone has declined further and is now at pre-credit crisis lows.

The ECB reinstated its QE programme and cut its deposit rate to -0.5% in response to the weakening external outlook and the lack of inflationary pressures.

Under these circumstances fixed income assets under management increased from EUR 70.9 billion to EUR 80.8 billion. There was a positive market movement of EUR 5.7 billion and a net inflow of EUR 4.2 billion.

Equity assets under management including real estate asset under management increased from EUR 20.8 billion to EUR 24.6 billion at year end. There was a positive market movement amounting to EUR 4.3 billion and a net outflow of assets of EUR 0.5 billion.

Alternative investments asset under management (consisting of for instance the derivatives and hedging book and private equity investments) increased from EUR 4.7 billion to EUR 6.2 billion. There was a positive market movement of EUR 2.4 billion and a net outflow of EUR 0.9 billion.

On an aggregate level, the Company's total assets under management has increased from EUR 96.4 billion as per the beginning of the year to EUR 111.7 billion as per the end of the year.

Responsible investment

Aegon Asset Management believes in active and responsible managed investments. For Aegon Asset Management, Responsible Investment is about making sure that Environmental, Social and Governance (ESG) factors are taken into account in investment decisions. By taking an active approach when considering ESG issues in its investment decisions, engaging with investee companies based on global and responsible investment policy-related standards and by exercising its shareholder rights, Aegon Asset Management reduces risks and explores new opportunities to serve its clients' interests and those of society at large. Aegon Asset Management publishes an annual Responsible Investment Report which outlines how its take on responsible investment was put into practice in the reported period and how the company dealt with key sustainability issues in relation to its managed investments. The report demonstrates Aegon Asset Management's commitment to integrate non-financial factors into its investment decision-making processes and its support for sustainable finance. For more detailed information, we refer to the Aegon Asset Management 2019 Responsible Investment Report.

Corporate governance, capital management and financial instruments

The Company has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business across the group that includes a clearly stated corporate organisational structure, appropriate delegated authorities and independent internal audit and risk management functions. Risk management for the Company operates within this governance framework.

The Company operates a formal risk management framework to assess financial, operational and business risks and mitigating controls. In addition, the Company reviews risks as part of its Internal Capital Adequacy Assessment Process. The Directors consider that the Company is subject largely to market risk, reputational risk and operational risk. The ICAAP process ensures that after taking account of mitigating actions, the Company maintains a level of capital that is appropriate for the risks it faces.

- Market risk considers the impact of significant falls in both equity and bond markets on assets under management and fee income.
- Reputational risk considers the impact of events such as potential poor investment performance or poor service delivery on sales and withdrawals.
- Operational risk considers the impact of inadequate or failed operational processes, which may impact in terms of higher costs and also cause reputational damage.

The Company's objective in managing its capital is to ensure that there are adequate resources to meet the Company's liabilities as they fall due, and to allocate capital efficiently to support

growth. The Company manages its capital by measuring its resources and cash available on a regular basis.

The Company is regulated by De Nederlandsche Bank (DNB) and Autoriteit Financiële Markten (AFM). The Company maintains capital in line with the requirements from DNB. The Company reports its capital position to DNB on a quarterly basis.

The Company is not exposed to significant financial instrument risk. Financial instruments held by the Company comprise of trade receivables and cash and short-term deposits. Credit risk is relatively low as assets are primarily cash and short-term deposits, which are placed with major banks of acceptable credit standing and with a degree of diversification.

Risk Management

General

The Company operates within the requirements of the Operational Risk Management Policy of AEGON Group. This policy sets out the principles and methodologies to identify, assess and manage risk. The Company complements this with a robust control framework, overseen via a monthly control meeting cycle, which culminates in the monthly Risk and Control Committee meeting. The Company also applies other policies setting out the standards that hold specifically for AAM and/or that apply to specific subjects (e.g. Conflicts of interest, Personal account dealing, Gifts & Hospitality).

The Risk Tolerance of the Company is defined in line with the methodology of the Operational Risk Management Policy of AEGON and is updated on an annual basis. The Company is primarily exposed to operational risks and to a lesser extent to financial risks.

Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal or external processes, people and systems, or from external events. The Company seeks to minimize operational risk events and has no tolerance for single event related losses exceeding EUR 10.0 million more frequently than once every 10 years and has no tolerance for single event related losses exceeding EUR 0.5 million more frequently than once every 12 months. The Company has an Enterprise Risk Management department which facilitates identification of operational risk by line management, manages risk events and monitors follow up of issues and actions. The Key control framework is maintained by line management. Effectiveness of key controls is tested by the Controls & MI team that operates independently within the COO domain. The operational risk profile of the Company is discussed quarterly in the Global Risk and Control Committee by the Chief Risk and Compliance Officer and members of the Management Board.

Legal & compliance risk

Legal & Compliance risk is defined as the risk that losses occur resulting from non-voluntary legal liabilities, inadequate legal documentation; or products, services, people and actions failing to deliver the reasonable expectations of its customers and other stakeholders; or failure to comply with laws, regulations and internal company rules and policies, as well as late identification of significant and potential legal and regulatory developments. This includes the risk of failure to comply with established good business practices and expectations of key stakeholders such as customers, employees and society as a whole. The Company has a dedicated Legal department that actively identifies and addresses developments in the regulatory environment and translates this into a regulatory calendar. The Company's Compliance department also has a monitoring program in place to monitor compliance with laws, regulation and internal policies.

Financial Risk

The main financial risks are credit risk, liquidity risk and market risk, with the principal elements of market risk being interest rate risk and equity price risk. In addition to the financial risks, the Company has identified group risk. The Company is not exposed to significant currency risk other than through exposure to the funds it manages. The Corporate governance, capital management and financial instruments section of the Report of the Directors describes the Company's general approach to risk management and the management of financial risks.

Credit Risk

Credit risk is the risk that a counterparty defaults on contractual or other agreed obligations (including supplied credits, loans, claims and received warranties) whether or not as a result of being subject to limitations of foreign payments. The policy of the Company is not to carry out credit activities, hence the main credit risk is concentrated around the bank accounts we use. There is a very small risk within the Company of not being able to collect management fees from the funds the Company manages. The Company considers that the exposure to credit risk is limited given the prior experience where the Company has not had to write off any significant bad debts over the past 10 years.

A counterparty management policy is in place which limits the maximum amount of our own funds which the Company deposits with individual banks. During normal market conditions a bank balance above the Company's internal set minimum of EUR 15 million will be deposited at a minimum of two counterparties with a high credit rating. This ensures that the Company engages with a minimum of three counterparties at all times and thereby limiting the risk in this area.

The Company offers standard industry credit terms to clients. The credit risk to clients is very limited as the fee income is related to funds and Aegon Nederland N.V. The credit risk relates to the clients of the Company (not related to Aegon Nederland N.V.) with a discretionary portfolio. On average the fee income from the clients of the Company with a discretionary portfolio represent a marginal amount of the total fee income. As the risk is insignificant the Company accepts this risk. The third party growth strategy could lead to an increasing number of discretionary portfolios and consequently a higher amount of receivables on which credit risk applies.

Aged items are monitored by the Finance team of the Company and action is taken to recover such debts (through deduction from client assets if appropriate). The Company does not impose restrictions on the size of such debts, but aims to collect them in a timely way, thus reducing the amount of capital required to cover them. The Company has no appetite for on-balance sheet trading activity that might create counterparty risk.

Details of these balances are listed under notes 5, 6 and 7 of the notes to the financial statements.

Liquidity Risk

Liquidity risk considers the probability that insufficient cash is available to fulfil obligations. Liabilities that require liquid capital from the Company are in relation to operating expenses and the Company has a liquidity policy requiring a minimum level of working capital that enables it to manage liquidity risk. The key feature of this policy is that the Company is required to hold liquid capital to cover at least 3 months expenditure on a continuous basis. In practice liquid assets are considerably higher than this. The Company monitors the composition of the balance sheet as well as the size of the balance sheet. The Company reviews the cash balances available to make payments as they fall due. The review of the future forecasts shows that the Company is able to maintain sufficient liquid assets to meet its liabilities. Details of these balances are listed under notes 10, 11 and 12 of the notes to the financial statements.

Market Risk

Market risk is the risk resulting from exposure to changes in market prices of tradable financial instruments within a portfolio. The Company does not have a complex balance sheet. The balance sheet consists largely of cash and short-term assets and liabilities and all client assets are held separately off-balance sheet for the risk of clients. With the exception of the possibility of holding seed capital positions in certain circumstances, it is policy of the Company that investments are not carried out for its own account and therefore the direct exposure to market risk is limited. Currently, the Company does not hold any seed capital positions.

The Company is exposed to indirect market risk caused by fluctuations in the wider financial markets that will affect the valuation of the assets that the Company manages. The Company is therefore subject to indirect market risk through market impacts on fee income. Although the Company retains the ability to hedge this risk in certain situations the Company generally considers it uncontrollable, as it is inherent in the business of asset management. In practice, the exposure to this risk is diversified, to a degree, by having significant exposure to both bonds and equities.

Group Risk

The Company is part of the Aegon N.V. Group and within this is a member of the Aegon Asset Management Group and is thus subject to group risk. This is inherent to our organisational structure. Group risk may impact us in a number of ways:

- potential financial or reputational difficulties at Group level
- the Group's control over our actions or spending power
- Group actions such as takeover activity or strategic announcements (considered to be an inherent risk but mitigated through close communication).

The Company considers the benefits of membership of Aegon outweigh these potential risks. A key benefit of group membership is that capital and liquidity support over and above the Company's own capital requirement could be available as an additional buffer, depending on circumstances.

Creditor payment policy

The objective is to treat suppliers fairly and in accordance with good commercial practice. Suppliers' invoices are settled in accordance with agreed contractual terms or, if no terms are scheduled, generally within 30 days of the appropriate invoice date.

Outlook

A new type of coronavirus emerged in Wuhan, China in December 2019. This virus can cause a disease known as COVID-19. The majority of patients experience fever and respiratory problems. The virus has emerged in many countries worldwide and measures have been implemented to stop its spread. The outbreak of the coronavirus and its spread in 2020 has affected financial markets across the globe. In March 2020 worldwide markets have fallen by double digit percentages due to a significant rise in uncertainty.

The outlook of the financial markets is extraordinarily uncertain. The effect of the crisis and the economic recession that follows are expected to have a significant impact our client portfolio's. The developments will result in lower fee income and profitability. Whether revenues and profitability will improve in the remainder of 2020 is dependent on the period during which the regions in which we operate are exposed to COVID-19 and the extent to which government

measures may be prolonged, expanded or scaled down. Despite the extraordinarily uncertain times the Company is well positioned to deal with these challenging circumstances.

The Company believes vigilance to be key in times of turbulent markets. We carefully keep track of market developments, investment fund transactions and quotes to ensure our clients receive valuations and reports that provide an accurate reflection of current market circumstances. This entails that we keep a close eye on markets' reactions to policy changes by the central bank and market interventions by governments. We monitor indicators of market sentiment and adjust our portfolios accordingly to profit of opportunities when these may arise.

The Company is part of the Aegon Asset Management Global organization that operates from a diverse set of locations in Europe, the United States and Asia. This allows us to be well positioned for and give assurance of continued operations during periods of local or regional disruption. The company has implemented a series of measures to minimize the impact of the coronavirus on our clients, including intensive monitoring of governance and operations and work-from-home policies as part of business continuity plans.

The Events in early 2020 will give no new insights into the valuation of assets and liabilities of the Company as per 31 December 2019. The management board of the Company have adopted a going concern basis in preparing the financial statements. Relevant facts and circumstances relating to the financial position as per 31 December 2019 were assessed in order to reach our conclusion that there is no material uncertainty related to our ability to continue as a going concern. The main area assessed was the COVID-19 impact on the Company's business activities and financial performance. The Company has also assessed the impact of the financial markets on its revenues and concluded that the drop-in revenues does not jeopardize the viability of the company.

Management and Supervision Act

As of 1 January 2013, a new Management and Supervision Act came into effect. The new act requires large sized B.V.s such as the Company to have as far as possible a balanced distribution on their Board with at least 30% of the seats occupied by women and at least 30% by men. Looking at the year-end 2019 situation, the Company did not comply with this requirement (approximately 13% of the Board was occupied by women). In 2020 however and as part of the next steps in the globalization, the number of Board members has been reduced to 3 of which 1 is female. As a result, 33% of board seats are occupied by women at the date of signing of these financial statements.

Directors and their interests

Directors at the date of signing who served throughout the year

E. van der Maarel

R.R.S. Santokhi

B. Bakker

The Directors have declared that they had no interest in the share capital of the Company in the financial year ended 31 December 2019.

This report was approved by the Board of Directors and authorised for issue on 29 April 2020.

The Hague, The Netherlands

E. van der Maarel

R.R.S. Santokhi

B. Bakker

Financial statements

- Balance sheet before appropriation as at 31 December 2019
- Profit and Loss account for the year ended 31 December 2019
- Cash flow statement for the year ended 31 December 2019
- Notes to the financial statements

Balance sheet before profit appropriation as at 31 December 2019

(all amounts are in thousands of euros)

| | Notes | 31 December 2019 | 31 December 2018 |
|---|-------|---------------------------------|---------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 3 | 6,094 | 5,600 |
| Tangible assets | 4 | 360 | 278 |
| Total non-current assets | | <u>6,454</u> | <u>5,878</u> |
| Current assets | | | |
| Intercompany receivables | 5 | 5,960 | 38,545 |
| Trade receivables, prepayments and other receivables | 6 | 18,585 | 10,961 |
| Cash and cash equivalents | 7 | 90,720 | 45,064 |
| Total current assets | | <u>115,265</u> | <u>94,570</u> |
| Total assets | | <u><u>121,719</u></u> | <u><u>100,448</u></u> |
| Shareholder's equity | | | |
| | 8 | | |
| Share capital | | 1,134 | 1,134 |
| Share premium | | 38,686 | 38,686 |
| Other reserves | | (2,345) | 590 |
| Legal reserve | | 6,094 | 5,600 |
| Net result for the year | | 16,933 | 14,560 |
| Total shareholder's equity | | <u>60,502</u> | <u>60,570</u> |
| Provisions | | | |
| Provisions | 9 | 931 | 314 |
| | | <u>931</u> | <u>314</u> |
| Non-current liabilities | | | |
| Non-current liability due to bonus reservation | | 1,612 | 1,197 |
| | | <u>1,612</u> | <u>1,197</u> |
| Current liabilities | | | |
| Intercompany payables | 10 | 20,296 | 8,900 |
| Trade payables and other creditors | 11 | 27,875 | 26,281 |
| Corporation tax payable | 12 | 10,503 | 3,186 |
| Total current liabilities | | <u>58,674</u> | <u>38,367</u> |
| Total shareholder's equity, provisions and liabilities | | <u><u>121,719</u></u> | <u><u>100,448</u></u> |

Profit and loss account for the year ended 31 December 2019

(all amounts are in thousands of euros)

| | Notes | 2019 | 2018 |
|--|--------------|-----------------|-----------------|
| Management fee | 13 | 104,378 | 96,815 |
| Service fee | 14 | 12,119 | 10,841 |
| Performance fee | | 2,190 | 727 |
| Other income | 15 | 14,815 | 15,059 |
| Management fee expense | 16 | (9,280) | (8,972) |
| Service fee expense | 14 | (12,702) | (11,175) |
| Gross income | | 111,520 | 103,295 |
| Staff expenses | 17 | (53,177) | (50,570) |
| Other operating expenses | 18 | (32,221) | (30,312) |
| Other expenses | | (89) | (373) |
| Amortisation of intangible assets | 3 | (1,705) | (1,901) |
| Depreciation of tangible assets | 4 | (200) | (155) |
| Total expenses | | (87,392) | (83,311) |
| Operating profit for the year | | 24,128 | 19,984 |
| Addition to provisions | 9 | (805) | (328) |
| Other gains/(losses) | 19 | (416) | - |
| Interest expense | 20 | (329) | (245) |
| Profit on ordinary activities before taxation | | 22,578 | 19,411 |
| Corporation tax | 21 | (5,645) | (4,851) |
| Profit for the financial year | | 16,933 | 14,560 |

Cash flow statement for the year ended 31 December 2019

| (all amounts are in thousands of euros) | Notes | <u>2019</u> | <u>2018</u> |
|--|-------|----------------------|---------------------|
| <i>Operating activities:</i> | | | |
| Profit on ordinary activities before taxation | | 22,578 | 19,411 |
| <i>Adjustments to reconcile Operating profit/(loss) before tax to net cash flow from operating activities:</i> | | | |
| Depreciation, amortisation and other impairments | | 1,905 | 2,056 |
| (Increase)/decrease in current assets | | 24,961 | (5,425) |
| Increase/(decrease) in non-current liabilities | | 1,032 | 209 |
| Increase/(decrease) in current liabilities | | 20,307 | 2,473 |
| Corporate income tax paid | | (5,646) | (4,851) |
| Net cash flow generated from operating activities | | <u>65,137</u> | <u>13,873</u> |
| <i>Investment activities:</i> | | | |
| Investment in intangible fixed assets | | (2,199) | (1,498) |
| Investment in tangible fixed assets | | (282) | (119) |
| Net cash flow used in investment activities | | <u>(2,481)</u> | <u>(1,617)</u> |
| <i>Financing activities:</i> | | | |
| Dividend paid | | (17,000) | (11,150) |
| Net cash flow used in financing activities | | <u>(17,000)</u> | <u>(11,150)</u> |
| Net increase in cash and cash equivalents | | <u>45,656</u> | <u>1,106</u> |
| Cash and cash equivalents as at 1 January | 7 | 45,064 | 43,958 |
| Cash and cash equivalents as at 31 December | 7 | 90,720 | 45,064 |
| | | <u>45,656</u> | <u>1,106</u> |

The cash flow statement is prepared according to the indirect method.

Notes to the financial statements

1. General information

Aegon Investment Management B.V. (the Company) is an Investment Management Company, incorporated and domiciled in the Netherlands. The Company is a private limited liability share company organised under Dutch law and recorded in the Commercial Register of The Hague, Chamber of Commerce number 27075825, under its registered address at Aegonplein 50, 2591 TV The Hague. The Company is a wholly owned subsidiary of Aegon Asset Management Holding B.V. with the ultimate parent company being Aegon N.V., which is incorporated in the Netherlands.

The principal activities of the Company are management of investment funds, individual portfolio management and investment advice. The Company is the manager of Aegon Paraplufonds I whose sub funds are registered with the Authority for the Financial Markets (AFM). The Company is also the manager of alternative investment funds (AIFs) (which are also regulated and registered with the AFM) and of non-registered funds and pools. These non-registered (and non-regulated) funds are only offered to Aegon entities.

During 2018 the Company launched and executed an initiative to merge with affiliated entity TKP Investments B.V. within the global Aegon Asset Management (AAM) organisation in order to simplify the governance and improve decision making. This legal merger was effectuated as per 1 January 2019 and as per this date the Company merged the net assets of TKP Investments B.V.

The Company outsourced part of the asset management activities to BlackRock Advisors (UK) Limited, Saemor Capital B.V., Pelargos Capital B.V., Kames Capital plc and Aegon USA Investment Management LLC. Except for BlackRock Advisors (UK) Limited, these companies are part of the Aegon Group.

The Company outsourced the administration of the funds and pools to Citi Fund Services (Ireland) Limited.

2. Summary of significant accounting policies

General concepts of accounting principles

The financial statements are prepared under the historical cost convention and in accordance with accounting principles generally accepted in the Netherlands and with the financial reporting requirements included in Title 9 of Book 2 of the Dutch Civil Code.

The financial statements are denominated in euros, unless otherwise stated. This is both the functional currency and presentation currency of the Company. Assets and liabilities denominated in foreign currencies are translated into euros at rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into euros at the rates prevailing at the date of the related transaction. Exchange differences that arise from settlement or translations of monetary items are recorded in the profit and loss account.

Unless otherwise stated, all other assets and liabilities are recognised initially at fair value and subsequently measured at amortised cost. In the balance sheet, profit and loss account and the cash flow statement, references are made to the notes.

All amounts are reported in thousands of euros unless otherwise stated.

Legal merger between the Company and TKP Investments B.V.

The legal merger between AIM and TKPI as per 1 January 2019 is classified as uniting of interests. Both companies are under common control of Aegon Asset Management Holding B.V. The Company did not pay a purchase price. There was no cash flow and goodwill was not created. As such the legal merger is accounted for using the pooling of interest method. The pooling of interests method of accounting involves consolidating the balance sheets of AIM and TKPI into one balance sheet based on book values. On 1 January 2019 the assets and liabilities based on book value of the two companies were added together and netted. The equity of TKPI has been included in the other reserves of the Company. The comparative amounts have been restated. The TKPI assets of EUR 29,984, the liabilities of EUR 6,670, the equity of EUR 23,314 and the result of EUR 5,002 have been included on a line by line basis in comparatives amounts of the Company.

Comparison with previous year

The valuation principles and method of determining the result are the same as those used in the previous year.

Following the legal merger and the pooling of interest method as described above the comparative amounts have been restated to include the comparative amounts of TKPI. The comparative amounts as per 31 December 2018 of the Company and TKPI have been added on a line by line basis.

The comparative amounts have been restated for the revenues in line with the use of the principle agent method. The net management fee of EUR 87,843 has been divided in management fee of EUR 96,815 and management fee expense of EUR (8,972) and the net service fee of EUR (334) has been divided in service fee of EUR 10,841 and service fee expense EUR (11,175). The breakdown of the amounts were provided in the notes of the prior year financial statements.

Further the comparatives have been adjusted for the legal reserve in the balance sheet and the corresponding note. The legal reserve for intangible assets of EUR 5,600 has been separated from the other reserves. The comparatives in the cash flow statements have been changed to separate the investment cash flow in tangible assets of EUR 119 and intangible fixes assets of EUR 1,498.

Accounting principles

Intangible assets

Intangible assets consist of purchased capitalised software costs. Intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses determined individually for each asset. A periodic impairment test is performed on assets that are in use and on assets that have not been fully implemented or are not fully in operation.

Amortisation starts when the asset is in use. The amortisation is calculated using the straight-line method over the expected useful economic life of the intangible assets, not exceeding a period of five years.

Tangible assets

Tangible assets are valued at historical cost less straight-line accumulated depreciation. Depreciation of tangible assets is calculated using fixed percentages of the historic purchase cost and based upon the economic life of the asset.

Impairment of assets

On each balance sheet date, the Company assesses whether there are any indications that a fixed asset may be subject to impairment. If there are such indications, the recoverable amount of the asset is determined. If it is not possible to determine the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. An impairment occurs when the carrying amount of an asset is higher than the recoverable amount; the recoverable amount is the higher of the realisable value and the value in use.

An impairment loss is directly recognised in the profit and loss account while the carrying amount of the asset concerned is concurrently reduced.

The realisable value is initially based on a binding sale agreement; if there is no such agreement, the realisable value is determined based on the active market, whereby usually the prevailing bid price is taken as market price. The costs deducted in determining net realizable value are based on the estimated costs that are directly attributable to the sale and are necessary to realize the sale. For the determination of the value in use, an estimate is made of the future net cash flows in the event of continued use of the asset or cash-generating unit.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account.

Intercompany receivables, trade receivables, prepayments and other receivables

Intercompany receivables, trade receivables, prepayments and other receivables are recognised initially at fair value and subsequently measured at amortised cost, unless stated otherwise.

Cash and cash equivalents

Cash at banks and in hand represent cash in hand, bank balances and deposits with terms of less than three months. Cash at banks and in hand is carried at nominal value.

Trade and other payables

Trade and other payables, bonus reservations and intercompany payables are initially measured at fair value, and are subsequently measured at amortised cost.

Provisions

Provisions are recognised for legally enforceable or constructive obligations that exist at the balance sheet date, and for which it is probable that an outflow of resources will be required and a reliable estimate can be made. Provisions are measured at the best estimate of the amount that is necessary to settle the obligation as per the balance sheet date. The provision concerns a restructuring provision resulting from some organisational changes that were implemented in 2018. The amount accounted for reflects payables for contract terminations.

Principles for the determination of the result

The result is the difference between the realisable value of the services provided and the costs and other charges during the year. The result on transactions are recognised in the year in which they are realised.

Operational lease

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Principal – agent method

The Company recognises management fees as revenues in line with principal-agent method. Based on management assessment, the Company operates as principal in relation to the sub advised services provided to the AIM asset management clients. As a principal AIM recognises and presents the total gross contractual fees for the provided services as revenue.

Management fees, service fees and performance fees

Management fees and service fees comprises the fair value of the service rendered in the ordinary course of the Company's activities. The company recognises management and service fees in the accounting period in which the service is provided. Management fees for the funds are calculated on the fund's net asset value using pre-determined percentages disclosed in the fund's prospectus. The same principle applies for the service fees that are charged to the funds to cover for administrative, custody and other operational expenses. For institutional clients with an individual investment mandate the management fees are calculated over the quarterly average net asset value.

Performance fees are calculated as a percentage of the performance of the relevant assets under management and recorded when earned.

Management fee expenses and service fee expenses

Management fee expenses comprise of sub advisory costs which are payable to third parties and related parties. These costs are recorded when the service has been provided and is based on predetermined percentages of average net asset under management. The service fee expenses comprise of administration, custody, depository, supervision, external reporting, registration, independent auditor and bank expenses which are charged to the Company by external parties.

Other operating expenses

Costs are determined on a historical basis and are attributed to the reporting year to which they relate.

Other income and expenses

Other income and expenses are accounted for on an accrual basis.

Incentive plans

Share-based bonuses are long-term share and cash incentive plans awarded to eligible employees and are accounted for over the period between the date of award and the date of vesting. For employees marked as Identified Staff (IS), the variable remuneration consists of a 50% upfront payment in cash and a 50% deferred payment in cash (based on cliff vesting) with the NAV of a reference portfolio determining the ultimate pay out. Due to the implementation of Alternative Investment Fund Managers Directive (AIFMD) in 2014, as of 2015 share based bonus plans are no longer based on the Capital Requirements Directive (CRD) IV. Up to the implementation of AIFMD, eligible employees receive shares of Aegon N.V. A condition for payment of deferred rights in the future is that employees remain employed within the Aegon N.V. organisation. As of 2015, share based bonuses are granted in phantom shares which is a fictional instrument. At the date of vesting the fictional phantom shares will be paid out in cash.

Corporation tax

Corporation taxes are computed by applying the current tax rate to the result for the financial year, taking account of the losses available for set-off from previous financial years (to the extent that they have not already been included in the deferred tax assets) and adjusted for exempted sources of income and tax allowances. Due account is also taken of changes which occur in the deferred tax assets and deferred tax liabilities in respect of changes in the applicable tax rate.

Cash flow statement

The cash flow statement was prepared using the indirect method. The cash items disclosed in the cash flow statement comprise cash at banks and in hand, except for deposits with a maturity longer than three months. Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Interest paid and received, dividends received and income taxes are included in cash from operating activities. Investment in intangible fixed assets and tangible fixed assets are recognised as cash used in investment activities. Dividends paid are recognised as cash used in financing activities. Transactions not resulting in inflow or outflow of cash are not recognised in the cash flow statement.

Significant accounting judgments, estimates and assumptions

The preparation of annual financial statements requires the use of judgment and estimates that affect the recognition and valuation of assets and liabilities, the disclosure of contingent liabilities as of the date of the annual financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the actual results may differ ultimately from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Key sources of estimation uncertainty

Restructuring provision

The reorganization plans are communicated with the employees in several ways, making a justified expectation by the employee that the reorganization will take place. Different parts of the reorganisation are already set in motion as at balance sheet date. The restructuring provision concerns commitments related to job placement services and the discharge of employees. A change in assumption and estimates may affect the actual costs of the restructuring, including choice of outflow and time

Management fees

The Company recognises management fees as revenues in line with principal-agent method. Based on management assessment, the Company operates as principal in relation to the sub advised services provided to the AIM asset management clients. As a principal AIM recognises and presents the total gross contractual fees for the provided services as revenue.

Useful lives of tangible and intangible assets

The Company reviews the estimated useful lives of tangible and intangible assets at the end of each reporting period. Currently the useful lives are determined as follows:

- Computer & equipment: 3 years
- Furniture & equipment: 4 years
- Leasehold improvements: 5 years
- Intangibles: 2-5 years

Proposed appropriation of result

Following the appropriation of result proposed by the board of directors and pursuant to article 0 of the articles of association, an amount of EUR 5,933 million of the profit for 2019 will be proposed to add to other reserves and EUR 11 million will be proposed to be distributed as dividend.

It is proposed to distribute the profit of EUR 16,933 as follows:

| | |
|--|--------|
| Addition to other reserves | 5,933 |
| At the disposal of the Annual General Meeting (dividend) | 11,000 |
| Net profit | 16,933 |

Notes to the balance sheet as at 31 December
3. Intangible assets

| | Software costs | Total |
|---|-----------------------|--------------|
| Balance as at 1 January 2019 | | |
| Historical costs | 12,183 | 12,183 |
| Cumulative impairment losses and amortisation | (6,583) | (6,583) |
| Book value | <u>5,600</u> | <u>5,600</u> |
| Movements | | |
| Investments | 2,199 | 2,199 |
| Amortisation of intangible fixed assets | (1,705) | (1,705) |
| Balance | <u>494</u> | <u>494</u> |
| Balance as at 31 December 2019 | | |
| Historical costs | 14,382 | 14,382 |
| Cumulative impairment losses and amortisation | (8,288) | (8,288) |
| Book value | <u>6,094</u> | <u>6,094</u> |
| Balance as at 1 January 2018 | | |
| Historical costs | 10,685 | 10,685 |
| Cumulative impairment losses and amortisation | (4,682) | (4,682) |
| Book value | <u>6,003</u> | <u>6,003</u> |
| Movements | | |
| Investments | 1,498 | 1,498 |
| Amortisation of intangible fixed assets | (1,490) | (1,490) |
| Impairment | (411) | (411) |
| Balance | <u>(403)</u> | <u>(403)</u> |
| Balance as at 31 December 2018 | | |
| Historical costs | 12,183 | 12,183 |
| Cumulative impairment losses and amortisation | (6,583) | (6,583) |
| Book value | <u>5,600</u> | <u>5,600</u> |

Intangible assets in the balance sheet are comprised of purchased and capitalised software packages. As at year-end 2019, a number of systems were implemented and operational. Amortisation was initiated for these software packages using the straight-line method over the expected useful economic life of two to five years.

4. Tangible assets

| | Computer and equipment | Furniture and equipment | Leasehold improvement | Total |
|--|---------------------------|----------------------------|--------------------------|-------|
| Balance as at 1 January 2019 | | | | |
| Acquisition costs | 330 | 274 | 111 | 715 |
| Cumulative impairments and depreciation | (204) | (178) | (55) | (437) |
| Book values | 126 | 96 | 56 | 278 |
| Movements | | | | |
| Investments | 282 | - | - | 282 |
| Depreciation of tangible fixed assets | (122) | (56) | (22) | (200) |
| Balance | 160 | (56) | (22) | 82 |
| Balance as at 31 December 2019 | | | | |
| Acquisition costs | 612 | 274 | 111 | 997 |
| Cumulative impairments and depreciation | (326) | (234) | (77) | (637) |
| Book values | 286 | 40 | 34 | 360 |
| Balance as at 1 January 2018 | | | | |
| Acquisition costs | 237 | 248 | 111 | 596 |
| Cumulative impairments and depreciation | (130) | (119) | (33) | (282) |
| Book values | 107 | 129 | 78 | 314 |
| Movements | | | | |
| Investments | 93 | 26 | - | 119 |
| Depreciation of tangible fixed assets | (74) | (59) | (22) | (155) |
| Balance | 19 | (33) | (22) | (36) |
| Balance as at 31 December 2018 | | | | |
| Acquisition costs | 330 | 274 | 111 | 715 |
| Cumulative impairments and depreciation | (204) | (178) | (55) | (437) |
| Book values | 126 | 96 | 56 | 278 |

The economic lives of tangible fixed assets is 3 years.

5. Intercompany receivables

| | 31 December 2019 | 31 December 2018 |
|---|---------------------------------|---------------------------------|
| Intercompany receivables with AEGON Asset Management Holding B.V. | 5,537 | 11,510 |
| Intercompany receivables with AEGON Nederland N.V. | - | 26,018 |
| Intercompany receivables with AEGON USA Investment Management LLC | - | 501 |
| Intercompany receivables with Aegon Asset Management Value Hub B.V. | 236 | 427 |
| Intercompany receivables with Blue Square Re N.V. | 68 | 34 |
| Intercompany receivables with AEGON – Unión Aseguradora S.A. | - | 20 |
| Intercompany receivables with AEGON N.V. | 119 | 14 |
| Intercompany receivables with Aegon Global Technology Europe | - | 21 |
| Total intercompany receivables | 5,960 | 38,545 |

Intercompany receivables are expected to be settled within one year from balance sheet date. Fair value of intercompany receivables approximates book value.

6. Trade receivables, prepayments and other receivables

| | 31 December 2019 | 31 December 2018 |
|--|---------------------------------|---------------------------------|
| Trade receivables, prepayments and other receivables | 14,320 | 6,969 |
| Management fee receivable from the Aegon funds | 3,916 | 3,668 |
| Service fee receivable from the Aegon funds | 349 | 324 |
| Total | 18,585 | 10,961 |

Outstanding balances are unsecured and cash settlement is generally expected to be settled within one year from invoice date. Fair value of receivables approximates book value.

At balance sheet date the prepayments amounted to EUR 1,523 (2018: EUR 1,014). During the year ended 31 December 2019 the Company has not made any provision for doubtful debtors.

7. Cash and cash equivalents

| | 31 December 2019 | 31 December 2018 |
|--|---------------------------------|---------------------------------|
| Cash at banks | 10,660 | 12,057 |
| Short-term deposits | 80,060 | 33,007 |
| Total cash and cash equivalents | 90,720 | 45,064 |

Cash and cash equivalents in the balance sheet comprise of cash held at banks, bank guarantee and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above. Of the cash and cash equivalents EUR 10,584 is free at disposal. EUR 75 relates to a bank guarantee issued and is not free disposal. EUR 80,060 is divided over a number of counterparties with a minimum rating in accordance with Aegon Group Credit name limit policy (CNLP). In accordance with the CNLP policy, all counterparties should have a CNLP rating of A or above. The CNLP rating is a composite agency rating, which is determined by reviewing the available solo agency ratings of Standard & Poor's, Moody's and Fitch.

8. Shareholder's equity

Issued share capital and reserves were attributable to the shareholder of Aegon Investment Management B.V.

| | 31 December 2019 | 31 December 2018 |
|---|---------------------------------|---------------------------------|
| Share capital – par value | | |
| Authorised share capital | | |
| 2,500 Ordinary shares of EUR 454 each | 1,134 | 1,134 |
| Allotted, called up and fully paid | | |
| 2,500 Ordinary shares of EUR 454 each | 1,134 | 1,134 |

The movement in shareholder's equity is as follows:

| | Share capital | Share premium | Other reserves | Legal reserve | Net result for the year | Total shareholder's equity |
|--|------------------|------------------|-------------------|------------------|----------------------------|----------------------------------|
| As at 1 January 2018 | 1,134 | 38,686 | 2,820 | 3,503 | 11,016 | 57,159 |
| Capital contribution | - | - | - | - | - | - |
| Dividends paid | - | - | (11,150) | - | - | (11,150) |
| Add profit prior year to other reserves | - | - | 11,017 | - | (11,017) | - |
| Additions to legal reserve from other reserves | - | - | (2,097) | 2,097 | - | - |
| Profit for the financial year | - | - | - | - | 14,560 | 14,560 |
| As at 1 January 2019 | 1,134 | 38,686 | 590 | 5,600 | 14,559 | 60,569 |
| Capital contribution | - | - | - | - | - | - |
| Dividends paid | - | - | (17,000) | - | - | (17,000) |
| Add profit prior year to other reserves | - | - | 14,559 | - | (14,559) | - |
| Additions to legal reserve from other reserves | - | - | (494) | 494 | - | - |
| Profit for the half year | - | - | - | - | 16,933 | 16,933 |
| As at 31 December 2019 | 1,134 | 38,686 | (2,345) | 6,094 | 16,933 | 60,502 |

In 2019 the Company paid a dividend to the parent company amounting to EUR 17,000.

9. Provisions

| | 2019 | 2018 |
|---|------------|------------|
| As at January 1 | 314 | 163 |
| Additions | 805 | 328 |
| Release | (107) | (170) |
| Withdrawal | (81) | (7) |
| Total provisions as at 31 December | 931 | 314 |

An amount of EUR 126 can be classified as non-current (longer than one year).

10. Intercompany payables

| | 31 December 2019 | 31 December 2018 |
|---|---------------------------------|---------------------------------|
| Intercompany payables to Kames Capital plc | 3,766 | 4,084 |
| Intercompany payables to Aegon Global Technology Europe | 422 | 243 |
| Intercompany payables to Aegon Asset Management Pan-Europe B.V. | 1,181 | 477 |
| Intercompany payables to Aegon Asset Management Holding B.V. | - | 3,282 |
| Intercompany payables to Aegon US AGT TransAmerica | 130 | 303 |
| Intercompany payables to Aegon Nederland N.V. | 11,250 | - |
| Intercompany payables to Saemor Capital B.V. and Pelargos B.V. | 718 | 422 |
| Intercompany payables to Aegon USA Investment Management LLC | 2,829 | 89 |
| Total intercompany payables | 20,296 | 8,900 |

Intercompany payables are expected to be settled within one year from balance sheet date. Fair value of intercompany payables approximates book value.

11. Trade payables and other creditors

| | 31 December 2019 | 31 December 2018 |
|---|---------------------------------|---------------------------------|
| Payables due to bonus reservations | 6,267 | 5,248 |
| Payables due to management fee expenses to sub advisors | 474 | 443 |
| Payables due to fund administration expenses | 2,184 | 2,470 |
| Other payables and accrued expenses | 18,950 | 18,120 |
| Total trade payables and other creditors | 27,875 | 26,281 |

Trade payable and other creditors are obligations expected to be settled within one year from balance sheet date. The fair value of the trade and other payables approximate their carrying value since the trade and other payables are non-interest bearing.

12. Corporation tax payable

The Company is part of the fiscal unity headed by Aegon N.V. As a consequence, the corporation tax payable is a payable to Aegon N.V. and is expected to be settled within one year from balance sheet date.

Notes to the profit and loss account for the year ended 31 December 2019
13. Management fee

| | 2019 | 2018 |
|---|----------------|---------------|
| Intercompany management fee income from Aegon Nederland N.V. | 49,236 | 47,112 |
| Intercompany management fee income from Blue Square Reinsurance | 121 | 104 |
| Management fee income from third parties | 55,021 | 49,599 |
| Total management fee | 104,378 | 96,815 |

14. Service fee and expenses

A service fee is charged to the applicable funds to cover for expenses such as costs of supervisors, custody, independent auditors, (legal) advice, administration and marketing and communications. The service fee expense is incurred by the Company.

15. Other income

| | 2019 | 2018 |
|--|---------------|---------------|
| Security lending fee from Aegon Nederland N.V. | 180 | 297 |
| Security lending fee from third parties | 20 | 31 |
| Other services to Aegon Nederland N.V. | 6,808 | 7,120 |
| Other income | 7,807 | 7,611 |
| Total other income | 14,815 | 15,059 |

Other services to Aegon Nederland N.V. represents additional fee income in respect of non-portfolio management services such as client reporting services, derivatives and hedging services and investment solutions expertise. The security lending fee with respect to insured funds from Aegon Nederland N.V. is maximised at EUR 500 in accordance with the agreement between the Company and Aegon Nederland N.V. The security lending fee in excess of EUR 500 directly flows to Aegon Nederland N.V. The total security lending fee on account of the Company amounted to EUR 200 (2018: EUR 328).

16. Management fee expense

| | 2019 | 2018 |
|--|----------------|----------------|
| Intercompany management fee expense to Saemor Capital B.V. and Pelargos B.V. | (5,800) | (6,028) |
| Intercompany management fee expense to Aegon USA Investment Management LLC | (1,644) | (1,114) |
| Management fee expense to Blackrock Advisors (UK) Limited | (1,836) | (1,830) |
| Total management fee expense | (9,280) | (8,972) |

17. Staff expenses

Staff expenses are EUR 53,177 (2018: EUR 50,570) and are related to recharges to the Company by Aegon Nederland N.V. for salaries, pension, social charges, etc. For terms and conditions relating to related party transactions, we refer to note 22.

Aegon Nederland N.V. employs all staff of Aegon Investment Management B.V. whose costs are included in staff expenses.

18. Other operating expenses

| | 2019 | 2018 |
|---|-----------------|-----------------|
| Intercompany charges Kames Capital plc | (2,940) | (4,003) |
| Intercompany charges Aegon USA Investment Management LLC | (96) | (172) |
| Intercompany charges Aegon Nederland N.V. | (2,695) | (2,761) |
| Intercompany charges Aegon Asset Management Holding B.V. | (2,901) | (1,873) |
| Intercompany charges TransAmerica | (21) | (303) |
| Intercompany charges Aegon Global Technology Europe | (3,064) | (2,814) |
| Intercompany charges Aegon Magyarország Befektetési Alapkezelő Zrt. | 50 | 35 |
| Intercompany charges Aegon Asset Management Value Hub B.V. | (523) | (329) |
| Intercompany charges AEGON – Unión Aseguradora S.A. | 20 | 20 |
| Intercompany charges Aegon Asset Management Pan Europe | (2,925) | (1,794) |
| Software maintenance expenses | (5,074) | (3,020) |
| Data/Research services expenses | (3,778) | (4,380) |
| Other administrative expenses | (8,100) | (8,737) |
| Operational lease expenses | (174) | (181) |
| Total operating expenses | (32,221) | (30,312) |

The intercompany recharges consist of other operating expenses that are recharged between Aegon entities. These recharges relates to services provided between the Company and other Aegon entities. Other administrative expenses include expenses from various services providers (e.g. third party administrator, consultants, independent auditor, tax advisors, etc.), rent and travel expenses.

The independent auditor's expenses for 2019 consist of:

| | 2019 | 2018 |
|---|--------------|--------------|
| Audit of the financial statements | 131 | 138 |
| Other audit procedures | 1,257 | 1,157 |
| Tax services | - | - |
| Other non-audit services | - | - |
| Total independent auditor expenses | 1,388 | 1,295 |

The fees listed above relate to the audit of the 2019 financial statements, regardless of whether the work was performed during the financial year.

The other audit procedure expenses are comprised of audit expenses for the investment funds, client mandates and audit expenses for ISAE 3402.

19. Other gains/(losses)

Other gains/(losses) relates to the foreign exchange difference between the moment of invoice registration and the actual payment of the invoice.

20. Interest expense

| | 2019 | 2018 |
|---|--------------|--------------|
| Bank charges and overdraft interest expense | (98) | (50) |
| Short-term deposits interest expense | (231) | (195) |
| Total interest expenses | (329) | (245) |

21. Corporation tax charge

| Reconciliation of corporation tax | 2019 | 2018 |
|--|-------------|-------------|
| Accounting profit before tax | 22,578 | 19,411 |
| Accounting profit multiplied by the NL standard rate of Corporation tax of 25% | (5,645) | (4,851) |
| Non-deductible expenses | - | - |
| Total corporation tax in the profit and loss account statement | (5,645) | (4,851) |

The Company is part of the fiscal unity headed by Aegon N.V. and accordingly is jointly and severally liable for tax liabilities of this fiscal unity. The tax charge will be settled with Aegon N.V. via an intercompany payable with Aegon Asset Management Holding B.V. The effective rate of tax is 25% for 2019 (2018: 25%).

22. Related party transactions

(a) Immediate parent undertaking

The immediate parent company is Aegon Asset Management Holding B.V., which is incorporated in the Netherlands. The group accounts of Aegon Asset Management Holding B.V. are available from the Company Secretary, Aegon Asset Management Holding B.V. Aegonplein 50, 2591 TV The Hague.

(b) Ultimate parent undertaking

The ultimate parent company is Aegon N.V., which is incorporated in the Netherlands. The group accounts of Aegon N.V. are available from the Company Secretary, Aegon Asset Management Holding B.V. Aegonplein 50, 2591 TV The Hague.

(c) Other related Parties

Other related parties are Aegon Nederland N.V., Saemor Capital B.V., Pelargos Capital B.V., Blue Square Reinsurance and Aegon Asset Management Pan-Europe B.V., all incorporated in the Netherlands, Aegon Asset Management (Asia) Ltd incorporated in Hong Kong, AEGON – Unión Aseguradora S.A. incorporated in Spain, Kames Capital plc, Aegon Global Technology Europe, both incorporated in the United Kingdom, Aegon Magyarország Befektetési Alapkezelő Zrt, Aegon Hungary Investment Fund Management Company and Aegon Asset Management Value Hub B.V., both incorporated in Hungary and Aegon USA Investment Management LLC, Aegon US AGT TransAmerica, both incorporated in the United States of America.

(d) Year end balances and transactions with related parties

The Company provides investment management services to other members of the Aegon Group at prices that are agreed from time to time between the Company and the recipients of the service, taking into account the size and nature of the service (see notes 13, 15 and 16 for total amount of such transactions).

Staff and other operating expenses are recharged to the Company at cost by Aegon Nederland N.V., a subsidiary of Aegon N.V. (see note 17 for total amount of such transactions). The intercompany balance with Aegon Nederland N.V. is interest bearing in accordance with market rates. The intercompany balances with other related parties are non-interest bearing and mainly relate to recharges across the asset management units. These recharges were made for cross border personnel and other expenses. This includes balances with Aegon Asset Management Holding B.V., Blue Square Re N.V., Kames Capital Plc, Aegon Asset Management Asia Limited, AEGON Global Technology Europe, Aegon USA Investment Management LLC, Saemor Capital B.V. and Pelargos Capital B.V., Aegon Hungary Investment Fund Management Company, AEGON – Unión Aseguradora S.A., Aegon Asset Management Pan-Europe B.V., Aegon Magyarország Befektetési Alapkezelő Zrt and Aegon Asset Management Value Hub B.V. Year end balances for related party transactions are detailed in notes 5 and 10.

23. Risk Management

General

The Company operates within the requirements of the Operational Risk Management Policy of AEGON Group. This policy sets out the principles and methodologies to identify, assess and manage risk. The Company complements this with a robust control framework, overseen via a monthly control meeting cycle, which culminates in the monthly Risk and Control Committee meeting. The Company also applies other policies setting out the standards that hold specifically for AAM and/or that apply to specific subjects (e.g. Conflicts of interest, Personal account dealing, Gifts & Hospitality).

The Risk Tolerance of the Company is defined in line with the methodology of the Operational Risk Management Policy of AEGON and is updated on an annual basis. The Company is primarily exposed to operational risks and to a lesser extent to financial risks.

Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal or external processes, people and systems, or from external events. The Company seeks to minimize operational risk events and has no tolerance for single event related losses exceeding EUR 10.0 million more frequently than once every 10 years and has no tolerance for single event related losses exceeding EUR 0.5 million more frequently than once every 12 months. The Company has an Enterprise Risk Management department which facilitates identification of operational risk by line management, manages risk events and monitors follow up of issues and actions. The Key control framework is maintained by line management. Effectiveness of key controls is tested by the Controls & MI team that operates independently within the COO domain. The Operational Risk profile of the Company is discussed quarterly in the Global Risk and Control Committee by the Chief Risk and Compliance Officer and global Management Board.

Legal & compliance risk

Legal & Compliance risk is defined as the risk that losses occur resulting from non-voluntary legal liabilities, inadequate legal documentation; or products, services, people and actions failing to deliver the reasonable expectations of its customers and other stakeholders; or failure to comply with laws, regulations and internal company rules and policies, as well as late identification of significant and potential legal and regulatory developments. This includes the risk of failure to comply with established good business practices and expectations of key stakeholders such as customers, employees and society as a whole. The Company has a dedicated Legal department that actively identifies and addresses developments in the regulatory environment and translates this into a regulatory calendar. The Company's Compliance department also has a monitoring program in place to monitor compliance with laws, regulation and internal policies.

Financial Risk

The main financial risks are credit risk, liquidity risk and market risk, with the principal elements of market risk being interest rate risk and equity price risk. In addition to the financial risks, the Company has identified group risk. The Company is not exposed to significant currency risk other than through exposure to the funds it manages. The Corporate governance, capital management and financial instruments section of the Report of the Directors describes the Company's general approach to risk management and the management of financial risks.

Credit Risk

Credit risk is the risk that a counterparty defaults on contractual or other agreed obligations (including supplied credits, loans, claims and received warranties) whether or not as a result of being subject to limitations of foreign payments. The policy of the Company is not to carry out credit activities. There is a very small risk within the Company of not being able to collect management fees from the funds the Company manages. The Company considers that the exposure to credit risk is limited given the prior experience where the Company has not had to write off any significant bad debts over the past 10 years.

A counterparty management policy is in place which limits the maximum amount of our own funds which the Company deposits with individual banks. During normal market conditions a bank balance above the Company's internal set minimum of EUR 15 million will be deposited at a minimum of two counterparties with a high credit rating. This ensures that the Company engages with a minimum of three counterparties at all times and thereby limiting the risk in this area.

The Company offers standard industry credit terms to clients. The credit risk to clients is very limited as the fee income is related to funds and Aegon Nederland N.V. The credit risk relates to the clients of the Company (not related to Aegon Nederland N.V.) with a discretionary portfolio. On average the fee income from the clients of the Company with a discretionary portfolio represent a marginal amount of the total fee income. As the risk is insignificant the Company accepts this risk. The third party growth strategy could lead to an increasing number of discretionary portfolios and consequently a higher amount of receivables on which credit risk applies.

Aged items are monitored by the Finance team of the Company and action is taken to recover such debts (through deduction from client assets if appropriate). The Company does not impose restrictions on the size of such debts, but aims to collect them in a timely way, thus reducing the amount of capital required to cover them. The Company has no appetite for on-balance sheet trading activity that might create counterparty risk.

Details of these balances are listed under notes 5, 6 and 7 of the notes to the financial statements.

Liquidity Risk

Liquidity risk considers the probability that insufficient cash is available to fulfil obligations. Liabilities that require liquid capital from the Company are in relation to operating expenses and the Company has a liquidity policy requiring a minimum level of working capital that enables it to manage liquidity risk. The key feature of this policy is that the Company is required to hold liquid capital to cover at least 3 months expenditure on a continuous basis. In practice liquid assets are considerably higher than this.

The Company monitors the composition of the balance sheet as well as the size of the balance sheet. The Company reviews the cash balances available to make payments as they fall due. The review of the future forecasts shows that the Company is able to maintain sufficient liquid assets to meet its liabilities.

Details of these balances are listed under notes 10, 11 and 12 of the notes to the financial statements.

Market Risk

Market risk is the risk resulting from exposure to changes in market prices of tradable financial instruments within a portfolio. The Company does not have a complex balance sheet. The balance sheet consists largely of cash and short-term assets and liabilities and all client assets are held separately off-balance sheet for the risk of clients. With the exception of the possibility of holding seed capital positions in certain circumstances, it is policy of the Company that investments are not carried out for its own account and therefore the direct exposure to market risk is limited. Currently, the Company does not hold any seed capital positions.

The Company is exposed to indirect market risk caused by fluctuations in the wider financial markets that will affect the valuation of the assets that the Company manages. The Company is therefore subject to indirect market risk through market impacts on fee income. Although the Company retains the ability to hedge this risk in certain situations the Company generally considers it uncontrollable, as it is inherent in the business of asset management. In practice, the exposure to this risk is diversified, to a degree, by having significant exposure to both bonds and equities.

Group Risk

The Company is part of the Aegon N.V. Group and within this is a member of the Aegon Asset Management Group and is thus subject to group risk. This is inherent to our organisational structure. Group risk may impact us in a number of ways:

- potential financial or reputational difficulties at Group level
- the Group's control over our actions or spending power
- Group actions such as takeover activity or strategic announcements (considered to be an inherent risk but mitigated through close communication).

The Company considers the benefits of membership of Aegon outweigh these potential risks. A key benefit of group membership is that capital and liquidity support over and above the Company's own capital requirement could be available as an additional buffer, depending on circumstances.

24. Number of employees

Aegon Nederland N.V. employs all staff that work for the Company, and as such the Company had no direct employees during the years 2019 and 2018. The number of average FTE that work for the Company in 2019 is 329.3 (2018: 326.5). All employees that work for the Company are based in the Netherlands.

25. Directors' remuneration

During the financial year 7 Directors held office (2018: 7). The total remuneration of the Directors in respect of their service to the Company was as follows:

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| Statutory directors on payroll in the Netherlands | 1,954 | 1,870 |
| Statutory directors not on payroll in the Netherlands | <u>108</u> | <u>85</u> |
| Salaries, pension, bonuses and other benefits | 2,062 | 1,955 |

26. Contingent liabilities

Operational lease

The term of the lease for the property on Europaweg in Groningen is until May 16, 2021. The lease commitment amounts to EUR 247 thousand.

In connection with the advance payments, ING Bank has issued a bank guarantee up to an amount of EUR 42 thousand total (2018: EUR 42 thousand).

27. Subsequent events

A new type of coronavirus emerged in Wuhan, China in December 2019. This virus can cause a disease known as COVID-19. The majority of patients experience fever and respiratory problems. The virus has emerged in many countries worldwide and measures have been implemented to stop its spread. The outbreak of the coronavirus and its spread in 2020 has affected financial markets across the globe. In March 2020 worldwide markets have fallen by double digit percentages due to a significant rise in uncertainty.

The outlook of the financial markets is extraordinarily uncertain. The effect of the crisis and the economic recession that follows are expected to have a significant impact our client portfolio's. The developments will result in lower fee income and profitability. Whether revenues and profitability will improve in the remainder of 2020 is dependent on the period during which the regions in which we operate are exposed to COVID-19 and the extent to which government measures may be prolonged, expanded or scaled down. Despite the extraordinarily uncertain times the Company is well positioned to deal with these challenging circumstances.

The Company believes vigilance to be key in times of turbulent markets. We carefully keep track of market developments, investment fund transactions and quotes to ensure our clients receive valuations and reports that provide an accurate reflection of current market circumstances. This entails that we keep a close eye on markets' reactions to policy changes by the central bank and market interventions by governments. We monitor indicators of market sentiment and adjust our portfolios accordingly to profit of opportunities when these may arise.

The Company is part of the Aegon Asset Management Global organization that operates from a diverse set of locations in Europe, the United States and Asia. This allows us to be well positioned for and give assurance of continued operations during periods of local or regional disruption. The company has implemented a series of measures to minimize the impact of the coronavirus on our clients, including intensive monitoring of governance and operations and work-from-home policies as part of business continuity plans.

The Events in early 2020 will give no new insights into the valuation of assets and liabilities of the Company as per 31 December 2019. The management board of the Company have adopted a going concern basis in preparing the financial statements. Relevant facts and circumstances relating to the financial position as per 31 December 2019 were assessed in order to reach our conclusion that there is no material uncertainty related to our ability to continue as a going concern. The main area assessed was the COVID-19 impact on the Company's business activities and financial performance. The Company has also assessed the impact of the financial markets on its revenues and concluded that the drop-in revenues does not jeopardize the viability of the company.

Signing of the financial statements

The Hague, The Netherlands

29 April 2020

E. van der Maarel

R.R.S. Santokhi

B. Bakker

Other information

Statutory provision regarding appropriation of the result

The articles of association provide that the net result for the year is subject to disposition to be decided upon by the Annual General Meeting of Shareholders.



Independent auditor's report

To: the general meeting of Aegon Investment Management B.V.

Report on the financial statements 2019

Our opinion

In our opinion, the financial statements of Aegon Investment Management B.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 Investment Management B.V., Den Haag.

The financial statements comprise:

- the balance sheet as at 31 December 2019;
- the profit and loss account for the year then ended; and
- the notes, comprising the accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

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 Investment Management B.V. in accordance with 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).

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PricewaterhouseCoopers Accountants N.V., Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800, 3009 AV Rotterdam, the Netherlands

T: +31 (0) 88 792 00 10, F: +31 (0) 88 792 95 33, www.pwc.nl

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Emphasis of matter - uncertainty related to the effects of the coronavirus (COVID-19)

We draw attention to note 27 in the financial statements in which the board of directors has described the possible impact and consequences of the coronavirus (COVID-19) on the company and the environment in which the company 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:

- Report of Directors;
- 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 board of directors is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Responsibilities for the financial statements and the audit

Responsibilities of the board of directors

The board of directors is responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the board of directors 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 board of directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the board of directors should prepare the financial statements using the going-concern basis of accounting unless the board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



The board of directors 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.

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.

Rotterdam, 29 April 2020
PricewaterhouseCoopers Accountants N.V.

M.D. Jansen RA



Appendix to our auditor's report on the financial statements 2019 of Aegon Investment Management B.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 board of directors.
- Concluding on the appropriateness of the board of directors' 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.

We communicate with the board of directors 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.