

Annual Report 2010
AEGON Investment Management B.V.
Year to 31 December 2010

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Company Information

Members of the Executive Committee

Mr. Philip J. G. Smith, MA, CA

Ms. Sarah A. C. Russell, MAF (appointed 23rd September 2010)

Mr. Frans F. F. de Beaufort, JD (appointed 7th April 2011)

Secretary

Ms Welmoed Janssen

Registered Office

AEGONplein 50

2591 TV, The Hague

Netherlands

Auditors

Ernst & Young Accountants LLP

Wassenaarseweg 80

2596 CZ, The Hague

The Netherlands

Annual report 2010

- Report of Directors
- Financial statements
- Other information

Report of Directors

General information

AEGON Investment Management B.V. (further: 'the Company') is a private limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at AEGONplein 50, 2591 TV The Hague. The principal activities of the Company are that of intra-group asset management services, investment management and investment administration services for clients in the Netherlands. The Company is incorporated and domiciled in the Netherlands and is regulated by the Dutch National Bank and Autoriteit Financiële Markten.

The Company is a wholly owned subsidiary of AEGON Asset Management Holding B.V., The Hague.

Review of business and future developments

The Company delivered a profit after tax of €3,887k (2009: (€4,735k)). The result over 2010 was in line with Directors' expectations for 2010.

2010 was a challenging year for financial markets. Sovereign bond markets in particular faced an unusually volatile year because of the European debt crisis. Worries of default in Greece instigated shockwaves throughout the financial world while other Southern European countries soon proved to have similar problems. As a result interest rate spreads between Northern and Southern European countries widened.

Under these difficult circumstances all our high-risk bond funds achieved a positive absolute return for 2010 as well as outperformance to their benchmarks. The emerging market debt fund and ABS fund achieved an outstanding 6% outperformance to their peers.

70% of our Equity funds achieved positive absolute returns in 2010. In the regions World (6 out of 8), US (all), Pacific (6 out of 10), Europe (5 out of 6) most funds outperformed their benchmarks.

The positive market performance in conjunction with new inflows increased assets under management by €1.9bn to over €47.9 billion by the end of 2010. The majority of new inflows came from affiliated insurance companies.

A new fee arrangement with our main client AEGON Nederlands N.V. came into force at the beginning of 2010. The new fee arrangement significantly increased the fees received by the company.

A new global structure for AEGON Asset management was implemented from January 2011. This is a client based structure rather than a geographical structure. This is based off two investment platforms, a third party investment platform and an insurance investment platform. The company is on the insurance investment platform with the company's main focus being on the needs of the insurer and their clients.

Development and Performance of the Business

The Board of the company monitors key management information on a quarterly basis to track business performance. This information includes investment performance, assets under management, revenues, expenses, headcount and capital position.

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 operational risk 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 business market risk, business reputational risk and operational risk. They operate a policy which is designed to ensure that after taking account of mitigating actions and future profits, the Company maintains a level of capital that is appropriate for the risks it faces.

- Business risk (market) considers the impact of significant falls in both equity and bond markets on assets under management and fee income.
- Business risk (reputational) 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 and repatriate excess capital where appropriate. The Company manages its capital by measuring its resources and cash available on a regular basis.

The Company is regulated by the Dutch National Bank and Autoriteit Financiële Markten. The Company maintains capital in line with the Dutch National Bank requirements. The Company reports its capital position to the Dutch National Bank on a quarterly basis. The Directors operate a policy which is designed to ensure that the Company maintains a level of capital that is appropriate for the risks it faces.

The Company is not exposed to significant financial instrument risk. Financial instruments comprise trade receivables and cash and short-term deposits. Credit risk is significantly reduced as assets are primarily cash and short term deposits, which are placed with major banks of acceptable credit standing.

Financial Risks

General

The company is exposed to financial risks. 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. The company is not exposed to significant currency risk other than through exposure to the funds it manages, and this risk is managed as for Market risks. 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

The company carries very low credit risk as the vast majority of receivables are intercompany transactions with other members of the AEGON group and the non group receivables are deducted directly from the clients funds under management. The Company does not hold financial instruments which give rise to concentrations of risk.

Details of these balances are listed under note 3 of the notes to the financial statements.

Liquidity Risk

The company has only limited exposure to Liquidity risk as balances are held in cash and short term deposits. Amounts due are settled without the need to realise illiquid assets.

Details of these balances are listed under note 4.

Market Risk

Market Risk is significant only in that market price changes affect our assets under management. This refers to fluctuations in the stock market that affect the assets we manage. The Company considers this risk uncontrollable, as it is inherent in the business of asset management.

Interest Rate Risk

Interest Rate Risk is significant only in the impact of interest rate movements upon our assets under management. This refers to business risk caused by fluctuations in the wider stock market that will affect the valuation of the assets that we manage. The company considers this risk uncontrollable, as it is inherent in the business of asset management.

Creditor Payment Policy

The objective is to treat our 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 45 days of the appropriate invoice date.

Directors and their Interests

Directors at the date of signing who served throughout the year

Mr. Philip J. G. Smith, MA, CA

The following Directors were appointed during the year

Mr. Frans Meerveld (appointed 23rd September 2010)

Ms. Sarah A. C. Russell, MAF (appointed 23rd September 2010)

Mr. Frans F. F. de Beaufort, JD (Appointed 7th April 2011)

The following directors left during the year

Mr. Willem H. van Houwelingen MBA, PhD (left 23rd September 2010)

Mr. Eric F. M. Rutten JD, MBA (left 23rd September 2010)

Mr. Andrew N. R. Fleming, BA (left 7th April 2011)

Mr. Frans Meerveld (left 21st April 2011)

The Directors have declared that they had no interest in the share capital of the Company in the financial year ended 31 December 2010.

This report was approved by the Board of Directors and authorised for issue on 28 April 2011

The Hague, The Netherlands

P. J. G. Smith, MA, CA

S. A. C. Russell, MAF

F. F. F. de Beaufort, JD

Financial statements

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Balance sheet as at 31 December 2010

(After appropriation of result)

	Notes	31.12.2010	31.12.2009
		EUR000	EUR000
Assets			
Current assets			
Trade and other receivables	3	28,760	21,565
Cash and short term deposits	4	21,571	17,968
		<u>50,331</u>	<u>39,533</u>
Current liabilities: Amounts falling due within one year			
Trade and other creditors	5	(27,335)	(21,869)
Tax creditor	6	(1,445)	
		<u>(28,780)</u>	<u>(21,869)</u>
Net current assets		21,551	17,664
Total assets less current liabilities		<u>21,551</u>	<u>17,664</u>
Shareholders' equity			
Share capital	7	1,134	1,134
Share premium		18,994	18,994
Others reserves		1,423	(2,464)
		<u>21,551</u>	<u>17,664</u>

Profit and loss account for the year ended 31 December 2010

	Notes	2010	2009
		EUR000	EUR000
Management Fee	8	42,978	28,223
Service Fee Income	9	10,389	5,287
Other Income	10	7,373	2,440
Total income		<u>60,740</u>	<u>35,950</u>
Staff Expenses	11	(26,030)	(23,705)
Other Operating Expenses		(26,955)	(18,296)
Other Expenses		(2,226)	(337)
Total expenses		<u>(55,211)</u>	<u>(42,338)</u>
Operating Profit / (Loss)		5,529	(6,388)
Investment Income	12	2	228
Finance Costs	13	(199)	(196)
Profit / (Loss) on ordinary activities before taxation		5,332	(6,356)
Tax (Charge) / Credit	14	(1,445)	1,621
Profit / (Loss) for the financial year		<u><u>3,887</u></u>	<u><u>(4,735)</u></u>

Cash flow statement for the year ended 31 December 2010

	Notes	2010	2009
		EUR000	EUR000
<i>Operating activities:</i>			
Profit / (Loss) before interest and tax		5,529	(6,388)
<i>Adjustments to reconcile Operating Profit before tax to net cash outflow from operating activities:</i>			
(Increase) in trade and other receivables		(7,195)	(11,044)
Increase in trade and other payables		6,911	5,467
Interest received		2	228
Income tax (payable) / receivable		(1,445)	1,621
Net cash flow from operating activities		<u>3,802</u>	<u>(10,116)</u>
<i>Financing activities:</i>			
Capital Contributions			11,870
Finance costs		(199)	(196)
Net cash flow from financing activities		<u>(199)</u>	<u>11,674</u>
Net increase in cash and cash equivalents		3,603	1,558
Cash and cash equivalents at 1 January		<u>17,968</u>	<u>16,410</u>
Cash and cash equivalents 31 December	4	<u><u>21,571</u></u>	<u><u>17,968</u></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. is an Investment Management Company, incorporated and domiciled in the Netherlands. The company is a private limited liability share company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at AEGONplein 50, 2501 CB The Hague. AEGON Investment Management B.V. 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

2. Summary of significant accounting policies

Accounting principles

The financial statements have been 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.

Unless otherwise stated, all other assets and liabilities are stated at face value.

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.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding VAT. The following specific recognition criteria must also be met before revenue is recognized:

Fees are recognised as revenue over the period when the services have been performed and the amount can be reliably measured. Management and service fees are primarily based on predetermined percentages of the market value of the assets under management. Performance fees are calculated as a percentage of the performance of the relevant assets under management and recorded when earned.

Exchange gains and losses are recognised in the Profit and Loss account.

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

Tax on income is computed by applying the current tax rate to the result for the financial year, adjusted for exempted sources of income and tax allowances.

Notes to the balance sheet

3 Trade and other receivables

	<u>31-12-2010</u>	<u>31-12-2009</u>
	EUR000	EUR000
Trade receivables	748	67
Intercompany receivables with AEGON Asset Management Holding B.V	19,756	12,844
Intercompany receivables with AEGON Asset Management UK plc	45	-
Intercompany receivables with AEGON Asset Management (Asia) Ltd	35	-
Intercompany receivables with Pelargos Capital B.V.	311	265
Intercompany receivables with Saemor Capital B.V.	290	305
Commercial Fee receivable from the funds	7,575	6,585
Tax (receivable from AEGON N.V.)	-	1,499
	<u>28,760</u>	<u>21,565</u>

Outstanding balances are unsecured and cash settlement is generally expected within 45 days of invoice. The Company has not benefited from any guarantees for any related party receivables. During the year ended 31 December 2010 the Company has not made any provision for doubtful debts.

4 Cash and short term deposits

	<u>31-12-2010</u>	<u>31-12-2009</u>
	EUR000	EUR000
Cash at Bank	<u>21,571</u>	<u>17,968</u>

The company can freely dispose of this cash balance.

5 Trade and other creditors

	<u>31-12-2010</u>	<u>31-12-2009</u>
	EUR000	EUR000
Intercompany payables to AEGON Nederland N.V.	11,472	12,160
Intercompany payables to AEGON USA Investment Management LLC	1,283	-
Other payables		140
Deferred Income and accrued expenses	<u>14,580</u>	<u>9,569</u>
	<u>27,335</u>	<u>21,869</u>

6 Tax creditor

The company is part of the fiscal unity headed by AEGON N.V. As a consequence the tax payable is a payable with AEGON N.V.

7 Shareholders' equity

Issued share capital and reserves attributable to shareholders of AEGON Investment Management B.V.

Share capital – par value

	<u>31-12-2010</u>	<u>31-12-2009</u>
	EUR000	EUR000
Authorised Share Capital		
2,500 Ordinary Shares of €454 each	1,134	1,134
Allotted, called up and fully paid		
2,500 Ordinary Shares of €454 each	1,134	1,134

The movement in shareholders' equity is as follows:

	Issued Capital	Share Premium	Other Reserves	Total
	EUR000	EUR000	EUR000	EUR000
As at 1 January 2009	1,134	7,124	2,271	10,529
Capital Contribution		11,870		11,870
Loss for the year			(4,735)	
As at 1 January 2010	1,134	18,994	(2,464)	17,664
Profit for the year			3,887	3,887
At 31 December 2010	1,134	18,994	1,423	21,551

Notes to the Profit and Loss account

8 Management fee

	<u>2010</u>	<u>2009</u>
	EUR000	EUR000
Rendering of services:		
Asset Management Fees group companies	39,139	25,712
Asset Management Fees third parties	<u>3,839</u>	<u>2,511</u>
	<u>42,978</u>	<u>28,223</u>

9 Service fee

The service fee income is in regards to fund related expenses. A basis point fee is charged to the applicable funds to cover expenses such as costs of supervisors, custody expenses, auditors, (legal) advice, administration and marketing and communications. These expenses are then paid by the company. In 2009 service fees exceeded the related costs and the surplus of €2.4m was taken to Balance Sheet. In 2010, in accordance with normal market practice this surplus was recognised in the Profit and Loss Account along with a similar surplus for 2010.

10 Other income

	<u>2010</u>	<u>2009</u>
	EUR000	EUR000
Securities Lending Fee	436	1,251
Other Services to AEGON NL	4,258	-
Recovery of system development costs	655	-
Income from associate companies	27	-
Other	<u>1,997</u>	<u>1,189</u>
	<u>7,373</u>	<u>2,440</u>

Other services to AEGON NL represents additional fee income in respect of non portfolio management services such as client reporting services and investment solutions expertise.

11 Staff expenses

Staff expenses are €26,030 (2009: €23,705) and are related to recharges to the Company by AEGON Nederlands B.V. For terms and conditions relating to related party transactions, refer to note 15.

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

The recharge to the Company also includes the following expenses:

	<u>2010</u>	<u>2009</u>
	EUR000	EUR000
Audit expenses Ernst & Young regarding legally required audit of the financial statements	17	12
Audit expenses Ernst & Young regarding Investment Funds and Client Mandates	<u>502</u>	<u>517</u>
Total	<u>519</u>	<u>529</u>

12 Investment income

	<u>2010</u>	<u>2009</u>
	EUR000	EUR000
Bank Interest Income	<u>2</u>	<u>228</u>

13 Finance costs

	<u>2010</u>	<u>2009</u>
	EUR000	EUR000
Bank Charges and Overdraft Interest Expense	88	91
Intercompany Interest Expense	<u>111</u>	<u>105</u>
	<u>199</u>	<u>196</u>

14 Tax charge

Reconciliation of tax charge	2010	2009
	EUR000	EUR000
Accounting profit / (Loss) before tax	5,332	(6,356)
Accounting profit / (Loss) multiplied by the NL standard rate of Corporation tax of 25.5%	(1,360)	1,621
Non-deductable expenses	(85)	-
Total tax charge / (credit) in the profit and loss account statement	(1,445)	1,621

15 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, 2501 CB 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, 2501 CB The Hague.

(c) Other related Parties

Other related parties are AEGON Nederlands N.V., Saemor Capital B.V. and Pelargos Capital B.V., all incorporated in the Netherlands, AEGON Asset Management (Asia) Ltd incorporated in Hong Kong, AEGON Asset Management UK plc incorporated in the UK and AEGON USA Investment Management LLC, incorporated in the USA.

(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 8 and 10 for total amount of such transactions). Staff and other operating expenses are recharged to the Company at cost by AEGON Nederland B.V., a subsidiary of AEGON N.V. (see note 11 for total amount of such transactions). Recharges have been made across the asset management group for cross border personnel and other expenses. This includes balances with AEGON Asset Management Holding B.V., AEGON Asset Management UK Plc, AEGON Asset Management (Asia) Ltd, AEGON USA Investment Management LLC. The company funded set up costs for Saemor and Pelargos which are outstanding. Year end balances for related party transactions are detailed in notes 3 and 5.

16 Risk Management**General**

The company is exposed to financial risks. 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. The company is not exposed to significant currency risk other than through exposure to the funds it manages, and this risk is managed as for Market risks. 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

The company is exposed to credit risk on standard industry credit available to clients and has an appetite for limited credit risk for this purpose. The company carries very low credit risk as the vast majority of receivables are Intercompany transactions with other members of the AEGON group and the non group receivables are deducted directly from the clients funds under management. The Company does not hold financial instruments which give rise to concentrations of risk.

Details of these balances are listed under note 3 of the notes to the financial statements.

Liquidity Risk

The company has only limited exposure to Liquidity risk as balances are held in cash and short term deposits. Amounts due are settled without the need to realise illiquid assets.

Details of these balances are listed under note 4.

Market Risk

Market Risk is significant only in that market price changes affect our assets under management. This refers to fluctuations in the stock market that affect the assets we manage. The Company considers this risk uncontrollable, as it is inherent in the business of asset management.

Interest Rate Risk

Interest Rate Risk is significant only in the impact of interest rate movements upon our assets under management. This refers to business risk caused by fluctuations in the wider stock market that will affect the valuation of the assets that we manage. The company considers this risk uncontrollable, as it is inherent in the business of asset management.

17 Number of employees

During the years 2010 and 2009, the Company had no employees. AEGON Nederland N.V. employs all staff that work for AEGON Investment Management.

18 Contingent Liabilities

The company is part of the fiscal unity headed by Aegon N.V. and accordingly jointly and severally liable for tax liabilities of this fiscal unity.

Signing of the financial statements

The Hague, The Netherlands

28 April 2011

S. A. C. Russell

F. F. F. De Beaufort

P.J.G. Smith

Other information

Auditors' report

Reference is made to the auditors' report hereinafter.

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.

Appropriation of the result 2010

In the coming Annual General Meeting of Shareholders it will be proposed to transfer the net profit for the year amounting to EUR 3,887 k to the other reserves.

In anticipation of such decision, the proposal has been reflected in the financial statements.

Independent auditor's report

To: the shareholder and the Board of Directors of AEGON Investment Management B.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of AEGON Investment Management B.V., The Hague, which comprise the balance sheet as at December 31, 2010, the profit and loss account and cash flow statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements and for the preparation of the managing directors' report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code and the Dutch Financial Supervision Act. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the financial statements

In our opinion, the financial statements give a true and fair view of the financial position of AEGON Investment Management B.V. as at December 31, 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code and the Dutch Financial Supervision Act.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

The Hague, 28 April 2011

Ernst & Young Accountants LLP

Signed by W.J. Thuss