

**Annual Report 2011**  
**AEGON Investment Management B.V.**  
**Year to 31 December 2011**

## Contents of the annual report

<b>Company information</b> .....	<b>3</b>
<b>Annual report 2011</b> .....	<b>4</b>
<b>Report of Directors</b> .....	<b>5</b>
<b>Financial statements</b> .....	<b>10</b>
Balance sheet as at 31 December 2011 .....	11
Profit and Loss account for the year ended 31 December 2011 .....	12
Cash flow statement for the year ended 31 December 2011 .....	13
Notes to the financial statements.....	14
<b>Other information</b> .....	<b>24</b>
Statutory provision regarding appropriation of the result .....	24
Appropriation of the result 2011 .....	24
Independent auditors' report.....	25

## **Company information**

### **Members of the Management Board**

Ms. Sarah A.C. Russell

Mr. Philip J.G. Smith

Mr. Frans F.F. de Beaufort

Mr. Rishi R.S. Santokhi

Mr. Henk Eggens

### **Secretary**

Ms. Welmoed Jansen

### **Registered Office**

AEGONplein 50

2591 TV, The Hague

Netherlands

### **Auditors**

Ernst & Young Accountants LLP

Wassenaarseweg 80

2596 CZ, The Hague

The Netherlands

## **Annual report 2011**

- 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 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 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 and Autoriteit Financiële Markten.

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

### General market developments

The year 2011 continued to be 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. Other continents also faced economic challenges with Japan being hit by a tsunami and the United States struggling to reach an agreement on the debt ceiling.

Under these difficult circumstances fixed income portfolios achieved a positive absolute return for 2011 and contributed approximately € 621 million to fixed income assets under management. Whereas market movements contributed positively to the fixed income assets under management, there was a net outflow of approximately € 300 million. Over the full year, fixed income assets under management increased from € 34,4 billion to € 34,8 billion.

Equity assets under management dropped from € 11,9 billion as per the beginning of the year to € 9,9 billion as per year end. An amount of € 1,6 billion is due to net outflows and € 0,4 billion is caused by a fall in equity markets.

Alternative investments (consisting of for instance the derivatives and hedging book and private equity investments) rose from € 1,5 billion to € 3,8 billion. Of this increase € 2,5 billion was caused by positive market movements, predominantly in the derivatives and hedging portfolio for the insurer. Net outflows on alternatives amounted to € 0,2 billion.

On an aggregate level, the Company's total assets under management increased from € 47,8 billion as per the beginning of the year to € 48,5 billion.

### Performance of the Company and developments during the year

#### *Performance of the Company*

The Company delivered a profit after tax of €1,029k (2010: €3,887k). The result over 2011 was in line with Directors' expectations for 2011. Both total income as well as total expenses decreased, but the decrease in income exceeded the expense decrease.

Revenues predominantly consist of management fees earned from the management of assets for affiliated insurance companies and service fees charged to the investment funds to cover for certain expenses. These fees were € 1,5 million lower compared to 2010 due to an underlying average equity and fixed income asset base which was lower compared to 2010 and as a result of negative market movements in the equity portfolios. Income was also

negatively impacted by performance fees paid to affiliated alpha equity managers (€ 7,0 million in 2011 compared to € 1,7 million in 2010).

The main expenses of the Company are personnel expenses, investment management service fees, IT expenses and intercompany recharges. With the exception of the recharges, most expenses did not change significantly compared to last year. Recharges decreased as a result of changes in services provided between intercompany entities.

The aforementioned developments led to a profit after tax of € 1,029k which is lower compared to prior year's profit.

During the year, the Company received two capital contributions from the parent company AEGON Asset Management Holding B.V. The first capital contribution was received in March 2011 and amounted to € 3 million. The second capital contribution was received in December 2011 and amounted to € 2 million. Both of these capital contributions have been initiated to enhance the capital position of the Company. As at 31 December 2011 the Company's equity amounted to € 27.2 million compared to the minimum capital required of € 23.5 million.

#### *Developments during the year*

The most notable development with respect to our investment performance relates to the fact that in March 2011, we have been awarded with various Morningstar awards, the most prestigious being the best all-round asset manager. This award underlines our expertise and is a reward for our strong track record in fixed income investing.

From an operational perspective during the year, management has performed an assessment of the organisation with the objective to identify opportunities to further enhance the robustness of the organisational structure and the quality of the services provided to clients. Based on this assessment a number of organisational changes have been implemented, the most notable being clearer reporting lines and the establishment of a number of new departments: Data and Service Level Management, Client Portfolio Management and Client Solutions.

The purpose of Data and Service Level Management is to achieve a clear data governance framework, to set a data management policy and process and to define data ownership in order to ensure quality of data. With respect to service level agreements, the purpose of this new department is to establish ownership of SLA's, set standards and to manage the review process of SLA's.

Client Solutions is essentially an extension of the existing department Client Service and aims to improve the satisfaction of internal and external clients by providing quality services and products.

In addition to this, management is in the process of critically assessing the IT architecture to see whether there are opportunities to reduce workarounds and increase efficiency.

During the year, Murex was implemented in the Netherlands asset management organisation. Murex is an application in which over-the-counter (OTC) derivative instruments are traded and in which certain back office activities related to OTC instruments are executed. AIM is currently in the process of completing the Murex application.

#### **Responsible investment**

Ever since the establishment of the global brand AEGON Asset Management (AAM), major steps have been taken in the domain of Responsible Investment (RI). During 2011 the Company started multiple initiatives to integrate RI in the organisation and in the investment process. The main focus areas were:

- Integration of Environmental Social Governance (ESG) factors;
- Engagement & Policy;
- The Principles for Responsible Investment.

The inclusion of non financial information – the so called ESG factors – in investment decisions is gaining importance and is driven by fiduciary mandates. The primary goal of the ESG integration is to create a better risk - return ratio on investments and thus creating value. The rationale behind ESG integration is in creating a more comprehensive insight into risks and opportunities that lie in non financial information without excluding investments on ethical grounds.

Furthermore the Company formulated a global RI policy in 2011. The RI policy covers guidelines on how companies' activities and policies are monitored . Also the RI policy includes an active voting policy and the possibility of utilizing legal instruments such as 'class action'. The Company expects these guidelines to contribute to improved risk management and identification opportunities.

Finally, in February 2011 the Company became a signatory of the United Nations Principles for Responsible Investment (UN PRI). As a signatory of the UN PRI the Company shows her commitment to responsible investment. Responsible investment is embedded in the structure of our organisation .

### **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 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 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 De Nederlandsche Bank and Autoriteit Financiële Markten. The Company maintains capital in line with the Dutch National Bank requirements. The Company reports its capital position to De Nederlandsche 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. 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 insignificant credit risk since it does not hold interest bearing financial instruments such as bonds. The vast majority of the assets consists of intercompany receivables with other members of the AEGON group and cash. 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 predominantly held in cash and short term deposits and intercompany receivables. 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 financial markets that affect the assets we manage. The Company is therefore only indirectly exposed to market risk.

### ***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 interest rates that will affect the valuation of the fixed income securities that we manage. The Company is therefore only indirectly exposed to interest rate risk.

### **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.

**Outlook**

AIM should be and remain a great place to work for all colleagues who contribute to serve our clients on a daily basis. They will be the basis to develop our Company from a captive to an asset gatherer. In 2012 we will continue to focus on improvement of our delivery to clients and the internal organisation. The way we work, act and deliver in a rapidly changing environment will be a healthy challenge.

**Subsequent events**

Between 31 December 2011 and the date of this report, the Company received another capital contribution which amounted to € 2 million. This capital contributions has also been initiated to enhance the capital position of the Company.

**Directors and their interests**

Directors at the date of signing who served throughout the year

S.A.C. Russell

P.J.G. Smith

F.F.F. de Beaufort

The following Directors were appointed:

R.R.S. Santokhi (appointed 2<sup>nd</sup> January 2012)

H. Eggens (appointed 2<sup>nd</sup> January 2012)

The Directors have declared that they had no interest in the share capital of the Company in the financial year ended 31 December 2011.

This report was approved by the Board of Directors and authorised for issue on 27 April 2012

The Hague, The Netherlands

S.A.C. Russell

P.J.G. Smith

F.F.F. de Beaufort

R.R.S. Santokhi

H. Eggens

## **Financial statements**

- Balance sheet
- Profit and Loss account
- Cash flow statement
- Notes to the financial statements

**Balance sheet as at 31 December 2011**

(After appropriation of result)

(all amounts are in thousands of Euro)

	Notes	<u>2011</u>	<u>2010</u>
<b>Assets</b>			
<b>Current assets</b>			
Trade receivables, prepayments and other receivables	3	30,302	28,760
Cash and cash equivalents	4	<u>21,330</u>	<u>21,571</u>
		51,632	50,331
<b>Current liabilities</b>			
Trade payables and other creditors	5	(23,507)	(27,335)
Tax creditor	6	<u>(545)</u>	<u>(1,445)</u>
		(24,052)	(28,780)
<b>Total assets less current liabilities</b>		<u><u>27,580</u></u>	<u><u>21,551</u></u>
<b>Net Assets</b>		27,580	21,551
<b>Shareholders' equity</b>			
Share capital	7	1,134	1,134
Share premium		23,994	18,994
Others reserves		<u>2,452</u>	<u>1,423</u>
		<u><u>27,580</u></u>	<u><u>21,551</u></u>

**Profit and Loss account for the year ended 31 December 2011**

	<b>Notes</b>	<b>2011</b>	<b>2010</b>
Management fee	8	36,092	42,978
Service fee	9	7,576	10,389
Other income	10	8,097	7,373
<b>Total income</b>		<u>51,765</u>	<u>60,740</u>
Staff expenses	11	(25,400)	(26,030)
Other operating expenses	12	(24,779)	(26,955)
Other expenses		-	(2,226)
<b>Total expenses</b>		<u>(50,179)</u>	<u>(55,211)</u>
<b>Operating profit</b>		1,586	5,529
Interest income	13	130	2
Interest expense	14	(142)	(199)
<b>Profit on ordinary activities before taxation</b>		1,574	5,332
Tax (charge)	15	(545)	(1,445)
<b>Profit for the financial year</b>		<u>1,029</u>	<u>3,887</u>

**Cash flow statement for the year ended 31 December 2011**

<b>Notes</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
<i>Operating activities:</i>		
Operating profit	1,586	5,529
<i>Adjustments to reconcile Operating Profit before tax to net cash outflow from operating activities:</i>		
(Increase) in trade receivables, prepayments and other receivables	(1,542)	(7,195)
(Decrease) / increase in current liabilities	(4,728)	6,911
Interest received	130	2
Income tax (payable)	(545)	(1,445)
<b>Net cash flow from operating activities</b>	<b><u>(5,099)</u></b>	<b><u>3,802</u></b>
<i>Financing activities:</i>		
Capital contributions	5,000	-
Interest paid	(142)	(199)
<b>Net cash flow from financing activities</b>	<b><u>4,858</u></b>	<b><u>(199)</u></b>
<b>Net increase in cash and cash equivalents</b>	<b><u>241</u></b>	<b><u>21,571</u></b>
Cash and cash equivalents as at 1 January	21,571	3,603
Cash and cash equivalents as at 31 December	<u>21,330</u>	<u>17,968</u>
	<u>241</u>	<u>21,571</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, 2591 TV 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.

The principal activities of the Company are that management of investment funds, individual portfolio management and investment advice. The Company is the asset manager of AEGON Paraplufonds I and AEGON Paraplufonds IV which are AFM registered investment funds. The Company is also asset manager of multiple non-registered funds and pools for the insurer and institutional clients.

The Company outsourced part of the asset management activities to Saemor Capital B.V., Pelargos Capital B.V., BlackRock Advisors (UK) Limited, 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.

AEGON Custody B.V. is the depositary of the funds and pools under management of the Company.

### 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 Company 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.

Long term incentive plans are accounted for in the year in which they are awarded to eligible employees and the value of the shares and/or cash is recorded in the period in which the rights vest.

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.

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

## Notes to the balance sheet

### 3 Trade receivables, prepayments and other receivables

	<u>2011</u>	<u>2010</u>
Trade receivables, prepayments and other receivables	1,651	748
Intercompany receivables with AEGON Asset Management Holding B.V	21,652	19,756
Intercompany receivables with Kames Capital plc	-	45
Intercompany receivables with AEGON Asset Management (Asia) Ltd	-	35
Intercompany receivables with Pelargos Capital B.V.	-	311
Intercompany receivables with Saemor Capital B.V.	-	290
Management fee receivable from the funds	<u>6,999</u>	<u>7,575</u>
	<b><u>30,302</u></b>	<b><u>28,760</u></b>

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 2011 the Company has not made any provision for doubtful debts.

### 4 Cash and cash equivalents

Cash and cash equivalents consists at 31 December 2011 and 2010 of cash balances held at banks. The cash balances are repayable on demand.

### 5 Trade payables and other creditors

	<u>2011</u>	<u>2010</u>
Intercompany payables to AEGON Nederland N.V.	2,388	11,472
Intercompany payables to AEGON USA Investment Management LLC	1,792	1,283
Intercompany payables to Kames Capital plc	504	-
Other payables and accrued expenses	<u>18,823</u>	<u>14,580</u>
	<b><u>23,507</u></b>	<b><u>27,335</u></b>

## 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.

<b>Share capital – par value</b>	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Authorised Share Capital</b>		
2,500 Ordinary Shares of €454 each	1,134	1,134
<b>Allotted, called up and fully paid</b>		
2,500 Ordinary Shares of €454 each	1,134	1,134

The movement in shareholders' equity is as follows:

	<u><b>Issued Capital</b></u>	<u><b>Share Premium</b></u>	<u><b>Other Reserves</b></u>	<u><b>Total</b></u>
<b>As at 1 January 2010</b>	<b>1,134</b>	<b>18,994</b>	<b>(2,464)</b>	<b>17,664</b>
Profit for the year			3,887	3,887
<b>As at 1 January 2011</b>	<b>1,134</b>	<b>18,994</b>	<b>1,423</b>	<b>21,551</b>
Capital Contribution		5,000		5,000
Profit for the financial year			1,029	1,029
<b>At 31 December 2011</b>	<b>1,134</b>	<b>23,994</b>	<b>2,452</b>	<b>27,580</b>

## Notes to the Profit and Loss account

### 8 Management fee

	<u>2011</u>	<u>2010</u>
Rendering of services:		
Management fee group companies	31,985	39,139
Management fee third parties	<u>4,107</u>	<u>3,839</u>
	<u><b>36,092</b></u>	<u><b>42,978</b></u>

### 9 Service fee

The service fee income is regarding to fund related expenses. A 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. The expenses are incurred by the Company.

### 10 Other income

	<u>2011</u>	<u>2010</u>
Security lending fee	500	436
Other services to AEGON Nederland N.V.	4,258	4,258
Other income	<u>3,339</u>	<u>2,679</u>
	<u><b>8,097</b></u>	<u><b>7,373</b></u>

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 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 will directly flow to AEGON Nederland N.V. The total security lending fee including the maximised fee of EUR 500 on account of the Company amounted to EUR 2,075.

### 11 Staff expenses

Staff expenses are EUR 25,400 (2010: EUR 26,030) and are related to recharges to the Company by AEGON Nederland N.V. For terms and conditions relating to related party transactions, refer to note 16.

AEGON Nederland 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>2011</u>	<u>2010</u>
Audit expenses Ernst & Young regarding legally required audit of the financial statements	17	17
Audit expenses Ernst & Young regarding Investment Funds and Client Mandates	503	502
Other assurance services	35	35
Advisory services	<u>40</u>	<u>-</u>
Total	<u><b>595</b></u>	<u><b>554</b></u>

## 12 Other operating expenses

	<u>2011</u>	<u>2010</u>
Intercompany charges Kames Capital plc	672	3,162
Intercompany charges AEGON USA Investment Management LLC	902	1,637
Intercompany charges AEGON Nederland N.V.	6,072	6,591
Intercompany charges AEGON Asset Management Holding B.V.	1,054	490
Intercompany charges TKP Investments	-	135
Other administrative expenses	<u>16,079</u>	<u>14,940</u>
	<u><b>24,779</b></u>	<u><b>26,955</b></u>

Other administrative expenses include expenses from various services providers (e.g. sub advisors, third party administrators etc), maintenance software licenses, rent and travel expenses.

## 13 Interest income

	<u>2011</u>	<u>2010</u>
Bank interest Income	<u>130</u>	<u>2</u>

## 14 Interest expense

	<u>2011</u>	<u>2010</u>
Bank charges and overdraft interest expense	13	88
Intercompany interest expense	<u>129</u>	<u>111</u>
	<u><b>142</b></u>	<u><b>199</b></u>

## 15 Tax charge

<b>Reconciliation of tax charge</b>	<u><b>2011</b></u>	<u><b>2010</b></u>
Accounting profit before tax	<u>1,574</u>	<u>5,332</u>
Accounting profit multiplied by the NL standard rate of Corporation tax of 25% (2010: 25.5%)	(394)	(1,333)
Non-deductable expenses	<u>(151)</u>	<u>(112)</u>
Total tax (credit) in the profit and loss account statement	<u>(545)</u>	<u>(1,445)</u>

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

## 16 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, 2501 CB The Hague.

### (c) Other related Parties

Other related parties are AEGON Nederland N.V., Saemor Capital B.V., Pelargos Capital B.V. and TKP Investments B.V., all incorporated in the Netherlands, AEGON Asset Management (Asia) Ltd incorporated in Hong Kong, Kames Capital 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). All transactions with related parties are done at arm's length. 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 11 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. 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., Kames Capital 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.

**17 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, equity price risk and foreign exchange risk. The company is not exposed to significant foreign exchange 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 insignificant credit risk since it does not hold interest bearing financial instruments such as bonds. The vast majority of the assets consists of intercompany receivables with other members of the AEGON group and cash. 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 predominantly held in cash and short term deposits and intercompany receivables. 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 financial markets that affect the assets we manage. The Company is therefore only indirectly exposed to market risk.

### **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 interest rates that will affect the valuation of the fixed income securities that we manage. The Company is therefore only indirectly exposed to interest rate risk.

### **18 Number of employees**

During the years 2011 and 2010, the Company had no employees. AEGON Nederland N.V. employs all staff that work for AEGON Investment Management.

### **19 Director's remuneration**

During the financial year 3 Director held office. The total remuneration of the Directors in respect of their service to the Company was as follows:

	<u>2011</u>	<u>2010</u>
Salaries, pension, bonuses and other benefits	422,630	604,839

### **20 Contingent liabilities**

As at 31 December 2011 the Company had no contingent liabilities.

### **20 Subsequent events**

Between 31 December 2011 and the date of this report, the Company received another capital contribution which amounted to € 2 million. This capital contributions has been initiated to enhance the capital position of the Company.

## **Signing of the financial statements**

The Hague, The Netherlands

27 April 2012

S.A.C. Russell

P.J.G. Smith

F.F.F. de Beaufort

R.R.S. Santokhi

H. Eggens

## **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.

### **Appropriation of the result 2011**

In the coming Annual General Meeting of Shareholders it will be proposed to transfer the net profit for the year amounting to EUR 1,029k to the other reserves.

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

## **Independent auditors' 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 2011 of AEGON Investment Management B.V., The Hague, which comprise the balance sheet as at December 31, 2011, 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, 2011 and of its result and the cash flows 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, 27 April 2012

Ernst & Young Accountants LLP

Signed by W.J. Thuss