Aegon Conditional Pass-Through Covered Bond Company B.V.

Annual Report 2019

Amsterdam, the Netherlands

Aegon Conditional Pass-Through Covered Bond Company B.V.
Prins Bernhardplein 200
1097 JB Amsterdam
The Netherlands
Chamber of Commerce 63714779

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Aegon Conditional Pass-Through Covered Bond Company B.V. Annual Report 2019

1. Director's report

1.1 Activities and results

General
Aegon Conditional Pass-Through Covered Bond Company B.V. (“the Company” or "CBC") was incorporated on July 8, 2015.

The Company guarantees, under the Trust Deed, the payment of interest and principal payable under the Covered Bonds (”the Bonds”) issued by AEGON Bank N.V. (“AEGON” or “the Issuer”) which is located at AEGONplein 50, 2591 TV, Den Haag. As consideration for the Company to meet its obligation under the issued guarantee, AEGON will assign eligible assets to the Company. AEGON assigned eligible mortgage loans to the Company through a silent assignment (stille cessie). Meaning that until the occurrence of an Assignment Notification Event, the asset cover test has been breached or a Notice to pay / CBC Acceleration Notice have been served, AEGON is entitled to all proceeds in relation to the transferred eligible assets. If one or more of the previously mentioned events occurs or notice(s) have been issued the Company will be entitled to receive all proceeds in relation to the transferred assets, in order to fulfil its obligation under the issued guarantee; payment of interest and principal on the Bonds.

AEGON may issue, under the Covered Bond Programme, various series of Covered Bonds with a total notional amount of EUR 5,000,000,000. On December 1, 2015 AEGON issued under this programme a first series of Bonds in a total value of EUR 750.0 million. All Bonds of this first series were still outstanding as per December 31, 2019. On May 25, 2016 AEGON issued a second series of Bonds for a total nominal value of EUR 500.0 million. All Bonds of this second series were still outstanding as per December 31, 2019. On June 27, 2017 AEGON issued a third series of Bonds for a total nominal value of EUR 500.0 million. All Bonds of this third series were still outstanding as per December 31, 2019. On November 21, 2017 AEGON issued a fourth series of Bonds for a total nominal value of EUR 500.0 million. All Bonds of this fourth series were still outstanding as per December 31, 2019.

As per December 31, 2019 the net outstanding nominal amount of the transferred mortgage loans was EUR 2,706.7 million (previous year: EUR 2,744.3 million).

The Bonds were at issuance rated by both Standard & Poor's and Fitch. Both rated the Bonds issued as AAA. The rating of the Bonds of both issued series have not been amended since the issuance.

Since the issuance of the first series of Bonds neither an Assignment Notification Event, nor a breach of the asset cover test has occurred nor has a Notice to pay or a CBC Acceleration Notice been served.

The Trust Deed entered into by the Company, AEGON and Stichting Security Trustee AEGON Conditional Pass-Through Covered Bond Company states that all cost and expenses of the Company and all cash flows from swaps of the Company will be received and paid on behalf of the Company by AEGON for its own account. As a result, all amounts remaining in the Company will flow back periodically to AEGON. Cash transactions to the Company are limited to bank interest received and bank interest charged through to AEGON and the Company will not have the right to any of the proceeds.

In our opinion, the financial statements give a true and fair view of the assets, liabilities, financial position and statement of income of the Company and the director’s report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks that the Company faces.

Based on the set-up and structure of the Company - a special purpose vehicle with a fixed amount of profit each year as agreed with the tax authorities - no information or analyses are presented on the solvency or any other performance ratios. Liquidity risk is described. However, no further analysis with respect to the relevant performance ratio has been made.

RISK MANAGEMENT

In the event that the Company will take over the servicing of the Bonds, the Company will run interest rate and credit risk on the Bonds and the mortgage portfolio. In order to limit these potential risks the Company mitigated these risks via various instruments.

The risk appetite of the Company is low and matches the risk-profile of the Company. As said, various measurements have been taken to mitigate the risks for the Company. The main risks are various financial risks which will be dealt with separately.

Financial risk management

The Company has, under the Trust Deed, guaranteed the payment of interest and principal payable under the Bonds issued by AEGON. As a consequence, the Company will then, amongst others, run interest rate risks on both the Bonds and the mortgage portfolio.

Credit and concentration risk

The Company has no exposure to credit risk, which is the risk that the borrowers will be unable to pay amounts in full when due, unless the guarantee is invoked. When the guarantee is invoked all risks associated with the mortgage loans are transferred to the Company. Until that moment all risks and rewards associated with the assets are retained by AEGON and the transferred mortgage loans are not recognised at the balance sheet of the Company. However, given the minimum required over collateralisation of at least 5% a buffer is available to cover losses arising.

Interest rate risk

In order to limit the potential interest rate risks the Company may, if deemed necessary, enter into a swap agreement in order to mitigate the interest rate risk. In relation to the series issued and the portfolio transferred to the Company no swap agreement has been entered into by the Company. This given the fact that the average fixed interest rate on the Bonds, of 0.3889%, is less than the average interest rate of all transferred receivables and the obligation of AEGON to offer for a succeeding interest period, of the transferred mortgage loans an minimum mortgage interest rate of 1.0%.

Furthermore, the notional amount outstanding of all transferred eligible mortgage loans should at least be 105% of the notional amount outstanding of all Bonds. At the balance sheet date the notional amount outstanding of the transferred eligible mortgage loans was 120.54% (previous year: 122.25%).

Liquidity risk

In order to mitigate the liquidity risk, a temporary shortfall in cash, a reserve account is established. Cash is deposited by AEGON on a separate bank account held with BNG Bank N.V. ("BNG").

Operational risk

The Company has exposure to operational risks due to most of the services are provided by third parties. The third-party servicers to the Company are Intertrust Management B.V., Intertrust Administrative Services B.V., IQ EQ Structured Finance B.V., AEGON Hypotheken B.V., BNG BANK N.V., PricewaterhouseCoopers Accountants N.V., Citibank N.A., London Branch and ABN AMRO BANK N.V. To the date of this report, all third-party servicers continued to deliver their services to the Company due to the ability to work remote. The exposure of operational risks to the Company is limited.

Limited Recourse

Although interest rate risk, credit risk and liquidity risk are recognized, the exposure to the Company is limited. The Bonds are issued with limited recourse. If an event of default occurs and the security is enforced, the proceeds may not be sufficient to meet the claims of all the "Secured Creditors" (the Covered Bondholders, directors, administrator, back-up administrator, servicers, custodian, paying agent, calculation agent, registrar, each swap counterparty (if any), asset monitor, CBC account bank, participants, transferor and such other party designated by the security trustee to become a Secured Creditor). If, following enforcement of the security, the Secured Creditors have not received the full amount due to them pursuant to the terms of the transaction documents, the Secured Creditors will no longer have a claim against the Company after enforcement of the security. The Secured Creditors may still have an unsecured claim against the Issuer for the shortfall.

1.2 Future developments

The year 2019 has seen a continuation of the positive developments for the Dutch economy for just about all economic indicators, although in most areas, the level of growth was lower than in recent years. The Gross Domestic Product ("GDP") increased by around 1.7% in 2019, as compared to 2.5% in 2018. The expectations are that the GDP growth rate will level out around the 2% in the coming years. The reduced growth rate can also be seen as a reflection of declining levels of confidence expressed by consumers and in business and commerce. The spectacular growth in domestic house prices is coming to an end and the growth levels in the rest of the world and international trading also appear to be levelling off. Domestically, public spending and tax reductions are expected to provide positive impulses in the coming years but there continue to be capacity restrictions in the domestic economy, particularly in terms of skilled labour and some raw material shortages. A new capacity restriction was imposed in 2019 in the form of judgments from the Dutch High Court and European court concerning Nitrogen output levels (the 'Greenhouse effect'). This is already having the effect of delaying construction projects. Much of the expectations for the coming years are to a large degree dependent on developments in the rest of the world. The threat of a trade wars has receded somewhat in recent months, but rising tension in the Middle East, developments in the emerging economies and the timing and consequences of Brexit currently form the biggest dangers to these projections. All could materially impact the growth expectations.

The confidence levels in the business and commerce sectors and investment levels are also expected to level off for reasons outlined above. On the a more positive side, there appears to be ample funding available, both from the banking and private sectors, as well as from increased liquidity arising from higher profit levels. A warning signal is that banks appear to be tightening their acceptance criteria recently.

Unemployment levels continued to reduce from 3.8% to 3.4% during 2019 but this trend is expected to reverse slowly with an estimate of 3.6% by the end of 2021. Whilst the growth in labour demand is expected to keep growing, the expectation is that it will be slightly outstripped by the increased supply of labour. The growth in employment positions in recent years has attracted a great number of particularly older and more experienced entrants to the labour markets. Nevertheless, an historically high level of employers is experiencing problems through a lack of staff. The shift in labour markets seen in recent years from fixed to flexible contracts has reversed as employers seek the added security of labour that fixed contracts bring. The number of freelancers also continues to grow steadily.

Headline Inflation rose from some 1.6% in 2018 to 2.7% in 2019 as a result of one-off increases in energy prices and the imposed increase in the low rate VAT. For each of the coming years, and without those effects, inflation is expected to settle at a level of around 2.0%. The major determinant of headline inflation is wage inflation which is expected to rise to 2.6% and 2.8% in 2020 and 2021, respectively. Pressure in the labour market outlined above is seen as the main cause. Wage inflation, in combination with lower personal taxes is expected to lead to increases in real disposable income.

The Dutch residential housing market is showing some signs of stabilisation. The number of transactions in 2019 was comparable to 2018 at around 210,000 and price increases reduced significantly to around 6-8%. Indications at the end of 2019 are that a shortage of supply of dwellings in the market will ensure that it remains to be a sellers' market. In addition, the continued low level of interest rates, high employment rates and the expected rise in the level of disposable income contribute to the demand levels. These factors lead to a continuation of rising prices, albeit that they are likely to stabilize as compared to recent years at a level of around 2-3%. As always, there are significant regional differences. Such variations occur foremost between the Randstad, particularly Amsterdam and surrounding areas, and the rest of the country. Some regions are also affected by local economic and social issues and developments.

The above prognosis for future price increases is also supported by the average time that dwellings spend on the market. At the end of 2019 that statistic stood at around just 38 days. In addition, the trend of delayed completion for new developments continues. The scarcity of labour and some raw materials, has now been joined by the issue of the judgment concerning Nitrogen output levels.

Risk levels for homeowners and lenders alike have again decreased since last year and this is expected to continue in the coming years, though regional differences should not be ignored in the analysis. New homeowners have for years been subjected to stricter lending conditions and existing homeowners have seen debt ratios decrease as a result of rising prices. Borrowers continue to early repay their loans in situations where they are locked into mortgage agreements at relatively high interest rates. New loans have shown a tendency to be agreed for relatively long interest periods, at relatively low rates. The expectations for growth in the mortgage finance sector exceed those for price increases for dwellings for the first time in several years. Mortgage lenders are experiencing market pressures from alternative finance sources and have responded by easing acceptance criteria.

In the light of the risk factors facing the Company, as described above, the economic developments over the past year or so and outlook are generally considered positive for the Company, except for the potential impact of COVID-19 which we described below. Management believes that the Company's risks are adequately mitigated by the various credit enhancements, as described in the Financial statements and the Prospectus. Moreover, the Company's obligations to Noteholders are of limited recourse (see above). Consequently, no noticeable changes in the current position of the Company are expected for the next 12 months.

The historical information and prospective trends in this report were primarily derived from public reports issued by DNB and the NVM.
All of the above mentioned expectatations for the coming years are to a large decree dependent on developments of the rapid spread of Covid-19 ("Corona virus") which forms a serious threat to the world economic outlook right now with short-term, medium-term and even long-term consequences being very unpredictable.

The first series of Bonds with a total nominal value of EUR 750.0 million are scheduled to mature on 1 December 2020. Management has not received any indication that AEGON is not able to fully redeem the first series at the scheduled maturity date. In case AEGON is not able to fully redeem the first series at the scheduled maturity date, an Assignment Notification Event will occur in accordance with the Transaction Documentation, meaning that the Company is entitled to receive all proceeds in relation to the transferred assets in order to fulfil its obligation under the issued guarantee; payment of interest and principal on the Bonds.

It is currently not possible to estimate the impact of COVID-19 on the business of the Company. Until the occurrence of an Assignment Notification Event, AEGON is entitled to all proceeds in relation to the transferred eligible assets. If an Assignment Notification Event occurs, the Company will be entitled to receive all proceeds in relation to the transferred assets, in order to fulfil its obligation under the issued guarantee; payment of interest and principal on the Bonds. The uncertainties associated with the COVID-19 outbreak are high and it is currently not possible to estimate future effects. We believe that based on current insights, no material uncertainty relating to going concern exists and therefore the going concern assumption used in preparing the financial statements is appropriate.

The COVID-19 crisis is not expected to create uncertainty about the Company's ability to continue operating. COVID-19 will have some impact, but we do not expect any major consequences, in terms of future performance, asset valuation, or activities of the company in general. There may arise two main risks for the Company, which we expect to mitigate. First, new repayment schedules will be agreed with the client if deemed necessarily, in order to prevent these clients from being in arrears. This will potentially decrease the amount of eligible assets if clients are not able to meet the new agreed repayment schedule after the payment holiday period ends and will end-up in arrears. However, the Company has enough assets in place to substitute these assets. Second, a possible drop in house prices, as a consequence of the COVID-19 crisis, can lead to an increase in the ratio of loans to value of the underlying assets. The Company can mitigate this risk by over-collateralization, adding additional collateral to the pool. At this time, however, it is difficult to say whether house prices will actually fall in the near future. The economic damage caused by the corona virus and thus the potential impact on the housing market strongly depends on the duration of the restrictions and the effectiveness of the financial support measures provided by government and banks.

The Company is confident at this stage that it will be able to draw on the expertise of third-party suppliers and service providers to be in a position to satisfy its obligations under the Transaction Documentation. To date we have not experienced a significant impact from COVID-19.

Amsterdam, 11 May 2020

Managing Director,
Intertrust Management B.V.

2. FINANCIAL STATEMENTS

2.1 Balance sheet as at December 31, 2019

(Before result appropriation)

		December 31, 2019		December 31, 2018	
ASSETS		€	€	€	€
Current assets					
Other Receivables	[1]	184,923		128,934	
			184,923		128,934
Cash and cash equivalents	[2]		9,848,436		9,902,814
			10,033,359		10,031,748
SHAREHOLDER'S EQUITY AND LIABILITIES					
Shareholder's equity	[3]				
Share capital		1		1	
Other reserves		6,963		4,963	
Result current period		2,025		2,000	
			8,989		6,964
Long-term liabilities	[4]				
Long-term liabilities		10,000,000		10,000,000	
			10,000,000		10,000,000
Current liabilities	[5]				
Tax liabilities		1		3	
Accrued expenses and other liabilities		24,369		24,781	
			24,370		24,784
			10,033,359		10,031,748

2.2 Statement of income for the year ended December 31, 2019

		January 01, 2019 to December 31, 2019		January 01, 2018 to December 31, 2018	
		€	€	€	€
Income	[6]	4,377,091	4,377,091	4,333,892	4,333,892
General and administrative expenses	[7]	-4,374,591	-4,374,591	-4,331,392	-4,331,392
Income before taxation			2,500		2,500
Corporate income tax	[8]		-475		-500
Net result for the financial year			2,025		2,000

2.3 Statement of cash flows for the year ended December 31, 2019

The Statement of cash flows has been prepared according to the indirect method.

		January 01, 2019 to December 31, 2019		January 01, 2018 to December 31, 2018	
		€	€	€	€
Net result for the financial year*			2,025		2,000
Adjustments to statement of income:					
Corporate income tax	[8]	475		500	
			475		500
Movements in working capital					
Net change in other receivables	[1]	-55,989		-56,758	
Net change in current liabilities	[5]	-412		1,912	
Corporate income taxes paid	[6]	-477		-1,498	
Total movements in working capital			-56,878		-56,344
Cash flow from financing activities					
Share capital		-		-	
Net change in long-term liabilities	[4]	-		-	
Cash flow from financing activities			-		-
Movements in cash			-54,378		-53,844
Notes to the cash resources					
Opening balance			9,902,814		9,956,658
Movements in cash			-54,378		-53,844
Closing balance			9,848,436		9,902,814

* The net result for the financial year includes the Pool Servicing fee amounting to EUR 4,163,760 (previous year: EUR 4,124,599) charged by the Servicer, which is AEGON Hypotheken B.V., to the Company. The Pool Servicing fee is fully charged by the Company to AEGON. These amounts are settled through the current account and have been treated as non-cash items.

2.4 General notes to the financial statements for the year ended December 31, 2019

GENERAL INFORMATION
AEGON Conditional Pass-Through Covered Bond Company B.V. (the "Company" or "CBC") is a private company with limited liability incorporated under the laws of the Netherlands on July 8, 2015, which is registered at the Dutch Chamber of Commerce (63.71.47.79). The statutory seat of the Company is in Amsterdam, the Netherlands. The sole managing director of the Company is Intertrust Management B.V.

The Company guarantees, under the Trust Deed, the payment of interest and principal payable under the Covered Bonds (”the Bonds”) issued by AEGON Bank N.V. (“AEGON” or “the Issuer”) which is located at AEGONplein 50, 2591 TV, Den Haag. As consideration for the Company to meet its obligation under the issued guarantee, AEGON will assign eligible assets to the Company. AEGON assigned eligible mortgage loans to the Company through a silent assignment (stille cessie). Meaning that until the occurrence of an Assignment Notification Event, the asset cover test has been breached or a Notice to pay / CBC Acceleration Notice have been served, AEGON is entitled to all proceeds in relation to the transferred eligible assets. If one or more of the previously mentioned events occurs or notice(s) have been issued the Company will be entitled to receive all proceeds in relation to the transferred assets, in order to fulfil its obligation under the issued guarantee; payment of interest and principal on the Bonds.

TRANSACTION STRUCTURE, MANAGEMENT AND RELATED PARTIES
AEGON may issue, under the Covered Bond Programme, various series of Covered Bonds with a total notional amount of EUR 5,000,000,000. On December 1, 2015 AEGON issued under this programme a first series of Bonds in a total value of EUR 750.0 million. All Bonds of this first series were still outstanding as per December 31, 2019. On May 25, 2016 AEGON issued a second series of Bonds for a total nominal value of EUR 500.0 million. All Bonds of this second series were still outstanding as per December 31, 2019. On June 27, 2017 AEGON issued a third series of Bonds for a total nominal value of EUR 500.0 million. All Bonds of this third series were still outstanding as per December 31, 2019. On November 21, 2017 AEGON issued a fourth series of Bonds for a total nominal value of EUR 500.0 million. All Bonds of this fourth series were still outstanding as per December 31, 2019.

As per December 31, 2019 the net outstanding nominal amount of the transferred mortgage loans was EUR 2,706.7 million (previous year: EUR 2,744.3 million).

The Stichting Holding AEGON Conditional Pass-Through Covered Bond Company (‘the Foundation’) holds all shares of the Company. The Foundation was incorporated under the laws of the Netherlands on July 1, 2015. The registered office of the Foundation is in Amsterdam, the Netherlands. The objectives of the Foundation are to incorporate, acquire and to hold shares in the share capital of the Company and to exercise all rights attached to such shares and to dispose and encumber such shares. The sole director of the Foundation is Intertrust Management B.V.

The Stichting Security Trustee AEGON Conditional Pass-Through Covered Bond Company ("the Trustee") was incorporated under the laws of the Netherlands on July 1, 2015. The registered office of the Trustee is in Amsterdam, the Netherlands. The main objective of the Trustee is to act as security trustee for the benefit of the creditors of the Company, including the holders of the Bonds issued by AEGON and guaranteed by the Company. The sole director of the Trustee is IQ EQ Structured Finance B.V.

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also entities which can control the Company are considered to be a related party. In addition, statutory directors, other key management of the Company or the ultimate parent company and close relatives are regarded as related parties.

Transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is necessary in order to provide the required insight.

RISK MANAGEMENT

In the event that the Company will take over the servicing of the Bonds, the Company will run interest rate and credit risk on the Bonds and the mortgage portfolio. In order to limit these potential risks the Company mitigated these risks via various instruments.

The risk appetite of the Company is low and matches the risk-profile of the Company. As said, various measurements have been taken to mitigate the risks for the Company. The main risks are various financial risks which will be dealt with separately.

Financial risk management

The Company has, under the Trust Deed, guaranteed the payment of interest and principal payable under the Bonds issued by AEGON. As a consequence, the Company will then, amongst others, run interest rate risks on both the Bonds and the mortgage portfolio.

Credit and concentration risk

The Company has no exposure to credit risk, which is the risk that the borrowers will be unable to pay amounts in full when due, unless the guarantee is invoked. When the guarantee is invoked all risks associated with the mortgage loans are transferred to the Company. Until that moment all risks and rewards associated with the assets are retained by AEGON and the transferred mortgage loans are not recognised at the balance sheet of the Company. However, given the minimum required over collateralisation of at least 5% a buffer is available to cover losses arising.

Interest rate risk

In order to limit the potential interest rate risks the Company may, if deemed necessary, enter into a swap agreement in order to mitigate the interest rate risk. In relation to the series issued and the portfolio transferred to the Company no swap agreement has been entered into by the Company. This given the fact that the average fixed interest rate on the Bonds, of 0.3889%, is less than the average interest rate of all transferred receivables and the obligation of AEGON to offer for a succeeding interest period, of the transferred mortgage loans an minimum mortgage interest rate of 1.0%.

Furthermore, the notional amount outstanding of all transferred eligible mortgage loans should at least be 105% of the notional amount outstanding of all Bonds. At the balance sheet date the notional amount outstanding of the transferred eligible mortgage loans was 120.54% (previous year: 122.25%).

Liquidity risk

In order to mitigate the liquidity risk, a temporary shortfall in cash, a reserve account is established. Cash is deposited by AEGON on a separate bank account held with BNG Bank N.V. ("BNG").

Operational risk

The Company has exposure to operational risks due to most of the services are provided by third parties. The third-party servicers to the Company are Intertrust Management B.V., Intertrust Administrative Services B.V., IQ EQ Structured Finance B.V., AEGON Hypotheken B.V., BNG BANK N.V., PricewaterhouseCoopers Accountants N.V., Citibank N.A., London Branch and ABN AMRO BANK N.V. To the date of this report, all third-party servicers continued to deliver their services to the Company due to the ability to work remote. The exposure of operational risks to the Company is limited.

Limited Recourse

Although interest rate risk, credit risk and liquidity risk are recognized, the exposure to the Company is limited. The Bonds are issued with limited recourse. If an event of default occurs and the security is enforced, the proceeds may not be sufficient to meet the claims of all the "Secured Creditors" (the Covered Bondholders, directors, administrator, back-up administrator, servicers, custodian, paying agent, calculation agent, registrar, each swap counterparty (if any), asset monitor, CBC account bank, participants, transferor and such other party designated by the security trustee to become a Secured Creditor). If, following enforcement of the security, the Secured Creditors have not received the full amount due to them pursuant to the terms of the transaction documents, the Secured Creditors will no longer have a claim against the Company after enforcement of the security. The Secured Creditors may still have an unsecured claim against the Issuer for the shortfall.

PRINCIPAL ACCOUNTING POLICIES
The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of presentation
The financial statements are prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The financial statements are prepared under the historical cost convention and presented in the joint currency of the European Monetary Union, the euro (“EUR” or "€"). All amounts are in EUR, unless stated otherwise. Unless specifically stated otherwise, assets and liabilities are recognised at the amounts at which they were acquired or incurred. The balance sheet, statement of income and statement of cash flows include references to the notes. The valuation principles and method of determining the result are the same as those used in the previous year, with the exception of the changes in accounting policies as set out in the relevant notes.

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

Significant accounting judgments and estimates
In the process of applying the Company's accounting policies, the Company's management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows;

Going concern
The Company's management has made an assessment of the Company’s ability to continue as a going concern and is satisfied that the Company has the resources and activities to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern. Therefore, the financial statements are prepared on the going concern basis.

Implications of COVID-19 on our business
Although, as described in the Post-balance sheet events, the uncertainties associated with the COVID-19 outbreak are high and it is currently not possible to estimate future effects. We believe that based on current insights, no material uncertainty relating to going concern exists and therefore the going concern assumption used in preparing the financial statements is appropriate.

Impairment losses on mortgage loans
The Company reviews the underlying mortgage loans individually to determine whether provision should be made due to incurred loss events for which there is objective evidence, but of which effects are not yet evident. The assessment takes into account the data from the loan portfolio (such as credit quality, levels of arrears, loan to collateral ratios, historical loss patterns, etc.).

Ultimately, the Company's obligations towards the Issuer and holders of the Bonds in issue have limited recourse to the payments received on the mortgage loans and other income of the Company. If the incurred credit losses on the mortgage loans impair the Company's ability to repay either of those parties in full then the liabilities will be deemed to have been discharged in full once the available funds are paid out. This limited recourse arrangement acts as a hedge against the credit risk arising on mortgage loans.

Financial instruments
These financial statements contain the following financial instruments: other receivables, cash and cash equivalents, long-term liabilities and the current liabilities.

Financial instruments are initially stated at fair value, including discount or premium and directly attributable transaction costs. After initial recognition, financial instruments are valued at amortised cost. For any specific applicable accounting policy see the specific descriptions of the financial instruments in this section.

Other receivables
Other receivables are carried at amortised cost, less a provision for impairment, if deemed necessary.

Cash and cash equivalents
Cash and cash equivalents are valued at nominal value and, insofar as not stated otherwise, are at the free disposal of the Company. We refer to page 15 of the financial statements for further reference to the amounts at the free disposal of the Company. Cash and cash equivalents relate to immediately due and payable withdrawal claims against credit institutions and cash resources.

Long-term liabilities
The balance with the Issuer is initially recognised at fair value and subsequently carried at amortised cost. Mortgage loans and all other related balances are deducted from the balance with the Issuer in recognition of the retention of economic ownership by the Issuer.

Current liabilities
Current liabilities are carried at amortised cost. On initial recognition current liabilities are recognised at fair value. After initial recognition current liabilities are recognised at the amortised cost price, being the amount received taking into account premiums or discounts and minus transaction costs. This is usually the nominal value.

Result
The result is the difference between the income and the general and administrative expenses during the year. The results on transactions are recognised in the year in which they are realised.

Revenue recognition
Income and expenses are recognised in the statement of income on an accruals basis. Losses are accounted for in the year in which they are identified.

The Company does not recognise cash flows in which it has no beneficial interest, principally those flowing to the Issuer being the principal bearer of the risks and rewards associated with the mortgage loans.

FAIR VALUE FINANCIAL INSTRUMENTS
Due to the short-term nature of the cash and cash equivalents, long-term liabilities and other liabilities included in these financial statements, the estimated fair value for these financial instruments approximates the book value, as disclosed in the aforementioned accounting policies.

CORPORATE INCOME TAX
The Company is liable to Dutch corporate income tax under a tax ruling. This stipulates that the Company should report annual income on the basis of a 10% mark-up on the director’s fee, with a minimum of EUR 2,500.

STATEMENT OF CASH FLOWS
The statement of cash flows has been prepared using the indirect method. The cash items disclosed in the statement of cash flows are comprised of cash and cash equivalents. Income taxes are included in cash from operating 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 statement of cash flows.

2.5 Notes to the balance sheet as at December 31, 2019

CURRENT ASSETS

		December 31, 2019	December 31, 2018
Other receivables	**[1]**	€	€
		184,923	128,934
		184,923	128,934

The other receivables consists of costs reimbursed to AEGON by the Company, but still need to be received by the Company. All receivables fall due within one year.

		December 31, 2019	December 31, 2018
Cash and cash equivalents	**[2]**	€	€
CBC collection account		1,177	113
CBC reserve account		9,846,466	9,902,701
CBC custody cash account		793	-
		9,848,436	9,902,814

CBC collection account
The CBC collection account relates to a floating rate current account with BNG. The rate of interest on the collection account is determined by the Euro Overnight Index Average ("EONIA") minus a spread amounting to 25 basis points. With effect from (and including) October 1, 2019, EONIA will be calculated as the Euro Short-Term Rate (€STR) plus a fixed spread of 8.5 bps (the "recalibrated methodology). These changes are being implemented to ensure the continuous publication of EONIA until it ceases to be published as of January 2022.

CBC reserve account
The CBC reserve account relates to a reserve deposit with BNG. The reserve account required amount as per December 31, 2019 amounts to EUR 4,068,456.28 (previous year: EUR 4,076,746.58). These funds are designated as reserve fund for the bond holders. These funds are not at the free disposal of the Company, as they relate to immediately due and payable withdrawal claims against credit institutions and cash resources. The remaining balance of EUR 5,778,009.50 is at the free disposal of the Company. The rate of interest on the reserve account is determined by the Eonia minus a spread amounting to 15 basis points.

CBC custody cash account
The CBC custody cash account relates to a floating rate current account with ABN AMRO Bank N.V. The rate of interest on the custody cash account is determined by the EONIA minus a spread amounting to 25 basis points.

SHAREHOLDER'S EQUITY [3]

Share capital

	2019	2018
	€	€
Opening balance	1	1
Issue share	-	-
Closing balance	1	1

The issued and paid-in share capital amounts to EUR 1, consisting of 1 ordinary share of EUR 1.

Net result financial year

	December 31, 2019	December 31, 2018
	€	€
Opening balance	2,000	2,000
Other reserves	-2,000	-2,000
Net result financial year	2,025	2,000
Closing Balance	2,025	2,000

The net result for the year amounts to EUR 2.025.

Proposed appropriation

The net result for the year under review is EUR 2.025 (previous year: EUR 2.000). Management proposes to add the net result to the other reserves.

LONG-TERM LIABILITIES [4]

Long-term liabilities

	December 31, 2019	December 31, 2018
	€	€
Opening balance	10,000,000	10,000,000
Additions to reserve account	-	-
Closing balance	10,000,000	10,000,000

Long-term liabilities relate to the obligatory cash deposit made by AEGON. This cash amount is deposited in a separated account; the reserve account. The company will need to refund the deposited amount, to AEGON, when there is no obligation anymore to maintain a reserve fund. This will be the case once the issued notes have been repaid in full. The maturity date of the first series is December 1st, 2020. The maturity date of the second series is May 25th, 2023. The maturity date of the third series is June 27th, 2027. The maturity date of the fourth series is November 21st, 2024.

The required amount that needs to be deposited is based on the scheduled interest due on the issued Bonds on the next following interest payment date. The reserve fund is maintained in order to guarantee an uninterrupted payment of the interest amounts due on the Bonds. AEGON is entitled to receive all interest receipts in relation to de posited cash amount in the reserve account. The liability equals the amounts that have been deposited by AEGON on the reserve account.

The Company has granted a first ranking right of pledge over the transferred mortgage loans and beneficiary rights to the Trustee. The exercise of the pledge is subject to certain terms and conditions. Not meeting the Company's obligations to certain secured parties, including the covered bond holders, can lead to exercising the right of pledge by the Trustee.

CURRENT LIABILITIES [5]

Tax liabilities

	December 31, 2019	December 31, 2018
Corporate income tax	€	€
Corporate income tax current year	1	3
	1	3

Accrued expenses and other liabilities

	December 31, 2019	December 31, 2018
	€	€
Other costs	689	1,791
Audit fee	23,680	22,990
	24,369	24,781

Accrued expenses and other liabilities are due within a year. As part of the Trust Deed all income and expenses are settled with AEGON. All current liabilities have a maturity of less than one year.

2.6 Notes to the statement of income for the year ended December 31, 2019

Income [6]

	January 01, 2019 to December 31, 2019	January 01, 2018 to December 31, 2018
	€	€
Charged to AEGON	4,377,091	4,333,892
	4,377,091	4,333,892

As part of the Trust Deed all expenses are charged and settled with AEGON. The other income is the recharge of the expenses towards AEGON.

General and administrative expenses [7]

	January 01, 2019 to December 31, 2019	January 01, 2018 to December 31, 2018
	€	€
Pool servicing fee	4,163,760	4,124,599
Administration fee	96,756	98,100
Management fee	33,771	31,670
Audit fees	23,680	22,990
Negative interest bank accounts	56,237	53,803
Other expenses	387	230
	4,374,591	4,331,392

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

	Pricewaterhouse-Coopers Accountants N.V.	Other Pricewaterhouse-Coopers firms / affiliates	Total 2019
	€	€	€
Audit of the financial statements	19,570	-	19,570
Other audit engagements	-	-	-
Tax advisory services	-	-	-
Other non-audit services	-	-	-
Totals	19,570	-	19,570

The audit of the financial statements comprises a fee payable to PricewaterhouseCoopers Accountants N.V. for services rendered. The amount is excluding VAT and accounted for on an accrual basis.

Corporate income tax [8]

	January 01, 2019 to December 31, 2019	January 01, 2018 to December 31, 2018
	€	€
Corporate income tax	475	500
	475	500

The Company and the Dutch Tax Authorities agreed by way of a ruling until the final maturity date of the Bonds that the taxable amount is calculated as the higher of a) 10% of the annual remuneration paid to the managing director of the Company and b) EUR 2,500. The applicable tax rate for the period under review is 19% of the taxable amount (previous year: 20%).

Employees
During the period under review the Company did not employ any personnel (previous period: nil).

Remuneration of the Director and Board of Supervisory Directors
The remuneration of the Managing Director amounts to EUR 19,239 (previous year: EUR 18,912).

The Company does not have a board of supervisory directors.

Result
The result is the difference between the income and the general and administrative expenses during the year. The results on transactions are recognised in the year in which they are realised.

Post-balance sheet events
It is currently not possible to estimate the impact of COVID-19 on the business of the Company. Until the occurrence of an Assignment Notification Event, AEGON is entitled to all proceeds in relation to the transferred eligible assets. If an Assignment Notification Event occurs, the Company will be entitled to receive all proceeds in relation to the transferred assets, in order to fulfil its obligation under the issued guarantee; payment of interest and principal on the Bonds. The uncertainties associated with the COVID-19 outbreak are high and it is currently not possible to estimate future effects. We believe that based on current insights, no material uncertainty relating to going concern exists and therefore the going concern assumption used in preparing the financial statements is appropriate. The first series of Bonds with a total nominal value of EUR 750.0 million are scheduled to mature on 1 December 2020. Management has not received any indication that AEGON is not able to fully redeem the first series at the scheduled maturity date. In case AEGON is not able to fully redeem the first series at the scheduled maturity date, an Assignment Notification Event will occur in accordance with the Transaction Documentation, meaning that the Company is entitled to receive all proceeds in relation to the transferred assets in order to fulfil its obligation under the issued guarantee; payment of interest and principal on the Bonds.

The COVID-19 crisis is not expected to create uncertainty about the Company's ability to continue operating. COVID-19 will have some impact, but we do not expect any major consequences, in terms of future performance, asset valuation, or activities of the company in general. There may arise two main risks for the Company, which we expect to mitigate. First, new repayment schedules will be agreed with the client if deemed necessarily, in order to prevent these clients from being in arrears. This will potentially decrease the amount of eligible assets if clients are not able to meet the new agreed repayment schedule after the payment holiday period ends and will end-up in arrears. However, the Company has enough assets in place to substitute these assets. Second, a possible drop in house prices, as a consequence of the COVID-19 crisis, can lead to an increase in the ratio of loans to value of the underlying assets. The Company can mitigate this risk by over-collateralization, adding additional collateral to the pool. At this time, however, it is difficult to say whether house prices will actually fall in the near future. The economic damage caused by the corona virus and thus the potential impact on the housing market strongly depends on the duration of the restrictions and the effectiveness of the financial support measures provided by government and banks.

Amsterdam, 11 May 2020

Managing Director
Intertrust Management B.V.

3. Other information

3.1 Statutory provisions

In accordance with Article 19 of the Articles of Association, and applicable law, the Managing Director is authorized to retain the profits or a part thereof, as appears from the most recently adopted financial statements. The General Meeting is subsequently authorised to resolve to distribute or to reserve what then remains of the profits or a part thereof. The General Meeting is also authorised to resolve to make interim distributions, which includes distributions from the reserves.

The Company may make distributions to the shareholders only to the extent that from the most recently adopted balance sheet it appears that the Company's shareholder's equity exceeds the sum of the reserves which it is legally required to maintain.

The Company may only follow a resolution of the General Meeting to distribute after the management board has given its approval to do this. The Managing Director withholds approval only if it knows or reasonably should be able to foresee that the Company cannot continue to pay its due debts after the distribution.

Independent auditor's report

To: the general meeting of AEGON Conditional Pass-Through Covered Bond Company B.V.

Report on the financial statements 2019

Our opinion

In our opinion, the financial statements of AEGON Conditional Pass-Through Covered Bond Company 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 Conditional Pass-Through Covered Bond Company B.V., Amsterdam.

The financial statements comprise:

- the balance sheet as at December 31, 2019;
- the statement of income for the year ended December 31, 2019;
- the statement of cash flows for the year ended December 31, 2019; 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.

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, the Netherlands
T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, www.pwc.nl

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Independence

We are independent of AEGON Conditional Pass-Through Covered Bond Company 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).

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

We draw attention to note Post-balance sheet events in the financial statements in which the managing director 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:

- the directors' report;
- 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 managing director 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 managing director

The managing director 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 managing director 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 managing director is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the managing director should prepare the financial statements using the going-concern basis of accounting unless the managing director either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The managing director 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.

Amsterdam, 11 May 2020
PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.R. Vermeulen RA MSc

Appendix to our auditor's report on the financial statements 2019 of AEGON Conditional Pass-Through Covered Bond Company 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 managing director.
- Concluding on the appropriateness of the managing director's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the managing director 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.