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Conference Call Transcript

AEGON - Q3 2010 AEGON N.V. Earnings Conference Call

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CORPORATE PARTICIPANTS

Jan Nooitgedagt*AEGON N.V. - CFO***Darryl Button***AEGON N.V. - CFO, AEGON USA***Michiel van Katwijk***AEGON N.V. - EVP*

CONFERENCE CALL PARTICIPANTS

Farooq Hanif*Morgan Stanley - Analyst***Nick Holmes***Nomura - Analyst***Duncan Russell***JP Morgan - Analyst***Albert Ploegh***ING - Analyst***Farquhar Murray***Autonomous Research - Analyst***Jan Willem Weidema***ABN AMRO - Analyst***Chris Hitchings***Keefe, Bruyette & Woods - Analyst***Francois Boissin***Exane BNP Paribas - Analyst***Thomas Nagtegaal***RBS - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for holding. Welcome to the AEGON third quarter 2010 results. (Operator Instructions). We'll now hand the conference over to Mr. Jan Nooitgedagt. Thank you. Please go ahead.

Jan Nooitgedagt - AEGON N.V. - CFO

Good morning. Thank you for joining us for this discussion of AEGON's third-quarter results. As always, we welcome this opportunity to update you not only on our financial results, but also on the progress of our business. Joining me today are Daryl Button, CFO of our operations in the Americas, and Michiel van Katwijk, Executive Vice President. Before getting started, let me just remind you to take a moment to review our disclaimer on forward-looking statements, which is at the end of this presentation.

Let me quickly give you the headlines. In the third quarter, AEGON achieved improved earnings across most lines of business, higher sales and a stronger capital position. Underlying earnings improved substantially compared with the third quarter of 2009. This was supported by the execution of our strategy as well the improvements in the financial markets. New life sales increased in nearly all our markets and gross deposits increased by 38% to EUR9.4b, mainly driven by strong third-party asset management inflows, a clear indication of our shift to more fee business.

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AEGON's excess capital position above S&P AA capital adequacy requirements remains strong, and increased over the second quarter to EUR3.3b, despite repayment of a further EUR500m to the Dutch state. Overall, AEGON's businesses performed well in the third quarter and are on track to deliver the benefits of our strategic priorities.

On slide three, you are well aware of our focus to reallocate our capital to higher-growth markets, increase returns within our existing businesses and make better use of our resources and expertise across our organization. During the quarter we made further progress in restructuring our business in the UK, something I will come back to on the next slide.

We are similarly on track with our plans for our life reinsurance business Transamerica Reinsurance. As we have announced, we are exploring our strategic options for this business, which includes finding a buyer. We are pleased by the interest in this business from both strategic and financial parties and will communicate further on our progress as appropriate.

Implementing our strict cost discipline continues to be a priority, which resulted in a 1% decline in total operating expenses during the quarter, while investing in new capabilities like our European data center and our global asset management businesses. We have a number of initiatives underway to further reduce costs, recognizing of course that we must continue to invest in new capabilities and markets to stay competitive.

You will remember that last June we announced our plans to improve returns in our UK business by implementing a 25% cost reduction in our life and pension operations and refocus our business given the challenges and opportunities of the UK market. During the quarter we announced a number of actions. First, the restructuring of the sales organization, second, the closure of the employee benefit software business, and third, the sale of our third-party pension administration business. At the same time, we are implementing the streamlined organizational structure, which will be fully in place in 2011. We have begun formal consultation with trade unions to assess the impact on job positions and we will keep you informed about progress.

As you know, restructuring comes at a cost. Consequently the third-quarter results include a restructuring charge of GBP11m. We estimate the total costs to complete our restructuring plans in the UK to come in at between GBP80m and GBP85m, which is equivalent to the targeted annual savings we expect to realize.

Consistent with our aim to further improve AEGON's risk profile, in October, as you can see on slide five, we further increased our equity hedging on the back-book of variable annuities with guaranteed minimum income benefits in the United States. The way we did so is by extending our existing macro equity hedging program to \$2.3b. As a result, we have now covered approximately 80% of the equity exposure that exists in our back-book of GMIB variable annuities. We expect to have fully hedged this back-book by the end of 2012.

As we have begun in recent quarters, on slide six, we provide you with this overview of the key indicators of our progress. As this slide makes clear, AEGON performed better according to the main metrics compared to the third quarter last year. In the next few slides I will address the drivers supporting the increases in our underlying earnings, sales and deposits.

Let me start on slide seven with the underlying earnings, which increased 21% in the third quarter compared to the same quarter last year. The strengthening of the dollar clearly had a positive effect for AEGON. At constant currencies, the increase of underlying earnings was 10%.

The increase in underlying earnings in the Americas was a result of growth of our fee business, lower expenses and higher investment income. Compared with the second quarter, variable annuity earnings were negatively impacted by \$28m as charges of \$56m related to updated policyholder behavior assumptions for variable annuity products, which were updated for lower lapse assumptions, were only partly offset by reserve releases. These charges also impacted earnings derived from our life reinsurance business by \$22m. However, there was a positive effect of \$12m related to VA GMWB assumption changes in fair-value items.

In the Netherlands, earnings were again strong in the third quarter, totaling EUR97m. In the UK, earnings increased to GBP24m as earnings for the same period last year were affected by an exceptional charge of GBP38m related to a program to improve the consistency of customer records. Finally, most of our businesses performed better in our new markets, except for our non-life business in Hungary due to claims related to severe storms and floods earlier this year. While earnings from our --

On slide eight, something we have previously addressed with you is the topic of low interest rates and the effect on our sector. As we have made clear in the past, persistent low interest rates are not good for our sector. The industry is clearly exposed longer term to prolonged low interest rates and the risk will gradually materialize in increased capital requirements and put pressure on earnings for all the years that rates remain low. The accumulated impact over man years has the potential to be substantial.

However, AEGON has already taken a number of actions to protect in-force business and mitigate the effects of declining interest rates. These measures include increased interest rate hedging and strict asset liability matching. An example of how we are able to limit the impact of the current low interest rate level on our life guaranteed products are the actions we have recently taken in our US universal life business. We have lowered crediting rates, raised prices, pulled single-premium products and closely monitor inflows into existing products.

Most of AEGON's interest rate exposure is within our business in the Americas. While in the Netherlands we have fully hedged our interest rate risk embedded in the guarantees. Our UK and new markets business are less sensitive to interest rates. We estimate the negative impact from continued low interest rates on underlying earnings from the Americas to be approximately \$20m per quarter in 2011.

On slide nine, you see that our improving returns within our existing businesses remains one of our key priorities. The clearest path to achieving this objective is of course reducing costs. Operating expenses in the third quarter of this year declined 1% at constant currencies compared to the same period in 2009.

Cost reductions in our established market of the Americas and the Netherlands were partly offset by investments in new capabilities and new markets. In the UK, expenses increased mainly as a result of higher project costs and due to the restructuring underway. Expenses in new markets increased mainly as a result of our continued investments in growth of our businesses. We are continuing to identify additional areas where we can reduce costs and increase efficiencies, while making the investments necessary to support our ambitions.

Turning now to the factors supporting the strong increase in net income on slide 10, in the Americas, fair-value items were positively impacted by lower implied volatility and favorable equity markets in the third quarter. In addition, the net hedge results were small, as hedge results from AEGON's macro hedge program were more than offset by the effect of favorable equity markets on guarantees. As you might remember, in the second quarter we explained that we said the short-term equity market return assumption on variable life and variable annuity products in the Americas at 9%. We've decided to keep with this assumption for the third quarter as well.

In the Netherlands, the positive contribution was mainly the result of the increase in fair value of guarantees more than offset by the hedges. In addition, we realized EUR129m gain on investments. This was mostly driven by gains resulting from normal trading and corporate bonds in the US and sales of high-yield and emerging market debt in the Netherlands. In the category 'other charges', you will see the UK restructuring charge which I mentioned earlier. Finally, earnings from our businesses that have been put in run-off showed an improvement over these quarters.

Turning now to impairments in the quarter on slide 11, the EUR92m of net impairments reported relate primarily to housing-related securities in the United States. Compared to the second quarter, gross impairments were about at the same level, while recoveries declined.

In the quarter, US credit impairments amounted to 12 basis points. This is still somewhat above our long-term assumption of 30 to 35 basis points on an annual basis, calculated on our fixed-income portfolio in the US. For the time being, we expect impairments, particularly in the US real-estate-related sectors, to remain at somewhat elevated levels.

Returning now to the positive sales development in the quarter on slide 12, new life sales increased across most of our businesses. The 7% increase was mainly driven by retail sales in the Americas, pension sales in the UK, in addition to favorable exchange rates. The increase was partly offset by lower sales in the Netherlands. Gross deposits, excluding the run-off businesses, were up 38%, mainly as a result of strong third-party asset management inflows. As you are aware, we have been managing fixed annuity sales lower given the current low interest rate environment and the fact that we want to deemphasize spread-based products in favor of fee-based products.

The decline in VNB was mainly due to lower sales of fixed annuities in the United States and lower immediate annuity sales and margins in the UK. In the Netherlands, VNB declined as a result of lower sales and a decrease in margins. In addition, VNB declined due to a change in business mix, with more fee-based -- with more fee business and less spread business. I also should point out here that 23% of VNB came from our higher-growth businesses in new markets, an indication that we are making good progress in our objective to achieve a better geographical balance.

On slide 13, AEGON's excess capital position remains strong. The position increased during the quarter to EUR3.3b, above S&P AA capital adequacy requirements. The increase was driven by the positive contribution from earnings and capital preservation measures, partly offset by the repayment of a further EUR500m to Dutch state at the end of August. Of the EUR3.3b of excess capital, EUR2b is held within our operating units and EUR1.3b is held at the holding company.

Our core capital position, on slide 14, excluding the revaluation reserves, totals EUR17.2b, which is equivalent to 74% of our total capital base and above our target threshold of 70%. It is our aim to increase the proportion of core capital as a percentage of total capital to at least 75% by the

end of 2012. I want to reiterate once again our aim to complete full repayment to the Dutch state by the end of June 2011, market conditions permitting.

As you can see on slide 15, shareholders' equity during the quarter improved significantly to EUR18b. The improvements in credit markets and decline in risk-free interest rates have further improved the unrealized gains on our investment portfolio, which now totals EUR2.3b. A strong improvement in net income also contributed to the increased shareholders' equity. And of course the weakening of the US dollar at the end of the quarter against the euro had a negative effect on shareholders' equity.

On slide 16, as many of you know, updated mortality tables in the Netherlands show a strong increase in life expectancy. This is naturally something which could have a material impact on life and pension providers. We are currently in the process of assessing the possible impact of this on our insurance reserves in the Netherlands.

I want to make clear that we do not anticipate an impact on earnings in the fourth quarter with the adoption of these new mortality tables in our calculations. It is clear, however, that higher charges for longevity will have a limited impact on earnings over time. We expect that the one-off impact on our S&P excess capital position is less than EUR250m. All in all, we feel that the impact overall is manageable.

To briefly summarize, this was a good third quarter for AEGON. Our businesses performed well against all key indicators, underlying earnings, net income, sales and deposits. We continue to make good progress in implementing our strategic priorities and putting AEGON's proven expertise to work for our customers in all our markets.

Before we take your questions, let me remind you that we will host an analyst and investor conference on December 7 and 8 in New York City. Please contact Investor Relations if you would like to participate. Both Alex Wynaendts and I, along with senior management of the Americas, look forward to meeting you there.

Thank you for your continued interest in AEGON. I'm happy now to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). The first question is from Farooq Hanif from Morgan Stanley. Please go ahead.

Farooq Hanif - Morgan Stanley - Analyst

Good morning everybody. I've got a few questions. On the subject of further hedging of your GMIB book, could you just describe whether this is part of your already-announced capital preservation measures, and what the -- and if not, what is the kind of positive impact on S&P surplus capital on this move?

Secondly, could you also remind us of what in your book remains un-hedged, in WBs and IBs?

And the third question is on the policyholder behavior assumption change, the amount seems quite small in relation to your assets in both reinsurance and in the VA book. So could you just give us some guide to what has changed and what the risk is of further deterioration of those assumptions going forward? And I'll leave it at that for now so other people can ask questions too.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes, Farooq. Thank you for your questions. A couple of questions around probably the same topic, the hedging GMIB and GMWB. If I may start asking -- giving you an answer, and I will also ask Darryl to add and to give some flavor on your questions.

I think it's clear that, under the low interest environment, we have increased our hedging program for these products as well. Your basic questions are about the policy behavior and the hedging program. We have increased our hedging on the GMIB book up to 80% after the quarter in October

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and the policy behavior, as you know, we are doing that on a yearly basis. We are reviewing our assumptions and compare the customer behavior and the persistency and the lapses. That had an impact on GMIB, but -- a negative impact on GMIB, but also a positive impact on GMWB. The impact of GMWB has been reported under fair-value items so you have to look at the whole combination of all these impacts in the P&L.

But maybe, Darryl, you can give some flavor around the questions of policyholder behavior and the hedging program.

Darryl Button - AEGON N.V. - CFO, AEGON USA

Sure. Hi, Farooq. It's Darryl. The -- you asked about the impact on S&P capital from putting the additional hedging on, but the impact on capital is pretty neutral at the time we put the hedges on. It's really more about capital preservation so we're protecting our capital position in the tail as much as or more so than generating or freeing up capital for putting the hedges on themselves.

You asked about what remains un-hedged. We feel we're about 80% covered now on the IB book of living benefit so there's about 20% still to go. And we'll put that on somewhere between now and the end of 2012. There's also an older book of death benefits that also remains un-hedged. The rest of the living benefits, all the WB and 80% of the IB, are all equity delta hedged now.

And I think the last question you had, just on the lapse assumption itself, we just really we've recalibrated assumptions to the low experience, the low lapse-rate experience that we're seeing, and we ran it through the models. It was a hit on the IB product. And, as Jan mentioned, it was a benefit actually on the WB product. We designed that product to be less sensitive to policyholder behavior. We're seeing the benefits of that in that product.

Farooq Hanif - Morgan Stanley - Analyst

May I just follow up on a couple of points? So on the hedging, basically by 2012, equity delta hedge mainly still will be on all the living benefits, but death benefit remains un-hedged and that's just a choice that you've taken. What about interest rate hedging on that? That's one question. And actually, yes, that's it.

Darryl Button - AEGON N.V. - CFO, AEGON USA

Yes. The interest rate hedging on all the WB business, so from 2003 forward, we've got interest rate hedging in place there. So it's the older book of IB, where we're starting with the delta hedging and we have not put any interest rate hedging on that book. I think once we get all of the delta hedges in place and get that up to 100% cover, then we'll focus our efforts on potential to grow our interest rate hedge.

Farooq Hanif - Morgan Stanley - Analyst

And I'm presuming you'll give all the information about this at your investor day anyway?

Darryl Button - AEGON N.V. - CFO, AEGON USA

Yes.

Farooq Hanif - Morgan Stanley - Analyst

Okay. Thank you very much.

Operator

Thank you. The next question is from Nick Holmes from Nomura. Please go ahead.

Nick Holmes - Nomura - Analyst

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Yes. Hello there. Thank you very much. I really wanted to focus on your surplus capital and I had a couple of questions which I was hoping you might be able to give us more color around. I know it's a difficult area for you to be specific about, but I think it's very important for investors. So I was hoping for a bit more color.

And those questions are can you give us a rough range of the amounts of capital that you think you can generate between now and June? I think in the past, for example, you've said EUR600m of retained earnings at holding company over 12 months. Would you still, for example, say that that is relevant?

And on the capital preservation, if you could give us more color there.

And then secondly, the other side of the surplus capital question is how much do you actually need. And I wondered if we could just revisit whether, say, EUR1.5b is the figure, I think at the last conference call you suggested it was around about EUR1.5b, whether you think that, in a normal market, is the correct sort of level that you would be looking for. Thank you.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes. Thank you, Nick, for your questions and I can see that you have an interest in the answers. You know we are very pleased, let me starting by that, is that we have a very strong capital position at the end of the quarter, also after having paid the EUR500m in this quarter. And we also have said is that we will release EUR500m for the second half of this year. And looking at going forward, it's very hard to tell in extent of numbers how much capital we will upstream from the business units into the holding.

I think there are, of course, and you are asking this question also, keeping in mind that we have committed ourselves to pay back the Dutch state EUR1.5b by the end of June 30, 2011, and we continue to say that committed to that paying back the Dutch state if markets permit. And on the other hand you should also consider that we are reviewing our portfolio and we also have said is that we are looking for strategic alternatives for our reinsurance business.

I just have said also in the presentation that we are on track, but it's too early to say when and how and what. So it is a difficult question about upstreaming how much capital from the business units. Clearly we need, paying back the Dutch state EUR1.5b, we need EUR2.25b, but we like to keep open alternative options the way we pay back the Dutch state.

Nick Holmes - Nomura - Analyst

Yes. And could I perhaps just be more specific on the surplus capital that you in normal markets think that you require? I think EUR1.5b was the figure that was indicated at the last conference call. Is that something that you would say is still relevant?

Jan Nooitgedagt - AEGON N.V. - CFO

It is -- in excess capital -- we feel quite comfortable that we have now excess capital in the holding of EUR1.3b, as you might imagine. It's hard to predict any upstreaming of what is under normal circumstances (technical difficulty).

Nick Holmes - Nomura - Analyst

Pardon? But one -- (multiple speakers).

Jan Nooitgedagt - AEGON N.V. - CFO

What we -- I can give you a different answer in a way. What we -- what our priority is upstreaming capital dividends from -- leasing capital, upstreaming dividend from the business units, looking for, as we have said, for alternatives, alternative options for our reinsurance business. And, all in all, you have to consider that paying back the Dutch State.

Nick Holmes - Nomura - Analyst

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Okay. So we can -- you sound fairly confident about it, so is that a correct interpretation?

Jan Nooitgedagt - AEGON N.V. - CFO

I feel confident that we keep our commitment and we do everything to do that. Of course if markets are permitting us to do that.

Nick Holmes - Nomura - Analyst

Okay, that's great. I'll stop pestering you. Thank you very much.

Jan Nooitgedagt - AEGON N.V. - CFO

Thank you.

Operator

Thank you. The next question is from Duncan Russell from JP Morgan. Please go ahead.

Duncan Russell - JP Morgan - Analyst

Good morning. First question is on the investment portfolio in the US. You've obviously got a nice net unrealized gain position now on that investment portfolio, but you've still got quite large gross unrealized losses on your financial institutions bond portfolio, and also on some of the real estate housing-related securities. Given what's happened to interest rates, can you just comment on those gross unrealized losses and why you still think you don't need to impair those specific securities, given where interest have come and what that implies?

Second question then is on the life reinsurance business. There's obviously a very large DAC asset there. How should we look at that DAC asset? Is there a K-factor or something you can give us or what's the best way of measuring of that DAC asset and the viability of it?

And then third question on, just on the holding company cash flows. It looks like you upstreamed EUR200m in the quarter taking you up to the EUR1.3b. In my notes I seem to reconcile -- remember you saying that you were going to get EUR1.6b by the end of the year in the holding company. So A, is that right? And B, is that on track? Thank you.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes, thank you Duncan. The first question was about the investment portfolio. You know there are strict accounting rules around taking impairments on investment portfolios and we are following these rules. We also have said is that we believe that impairments will continue to be at elevated levels, but of course much lower than if you compare it with last year. I don't think I have anything to add to that.

And about the upstreaming - that was your last question about the upstreaming - I didn't understand exactly what you mean with excess capital in the holding, EUR1.3b to EUR1.6b. We feel that our excess capital position in the holding is quite strong. And, as I said earlier, is that it is our priority to stream up dividends from the business units, as you can imagine, to the holding and to have a strong as possibly position in the holding. In -- yes, as our priority is paying back the Dutch State by June 30 next year. So all our effort is based on releasing capital in the business units and upstreaming dividend to the holding.

Michiel van Katwijk - AEGON N.V. - EVP

And Duncan, this is Michiel. During the third quarter we actually upstreamed more than EUR0.5b from operating companies. Remember we repaid EUR0.5b to the Dutch State. So net-net, after repayment the excess capital position in the holding was up I guess a little over EUR100m to EUR1.3b. I don't think we've ever indicated that we would -- a target for excess capital position. But obviously it is our focus, in order to repay the State, we need to have the capital punctual in the holding. So we will continue to focus on bringing up capital in our operating companies.

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Your second question, maybe Darryl can you take that question about interest net?

Darryl Button - AEGON N.V. - CFO, AEGON USA

Yes. Hi Duncan, it's Darryl. You were asking about how I think about the DAC asset on reinsurance. First of all, it's mostly term insurance. It's pretty much all term insurance through our Reinsurance business so there's not really a K-factor per se. It's about a (inaudible) style accounting. What I can say is that we subjected to our normal asset adequacy and loss recognition analysis for the accounting standards and demonstrate through our auditors that the asset is recoverable. So that's not really an issue. The broader issue is of course we're seeking a transaction on the sale so that will all sort itself out through the final accounting of the sale transaction that we're working on.

Duncan Russell - JP Morgan - Analyst

Okay thanks.

Operator

Thank you. The next question is from Albert Ploegh from ING. Please go ahead.

Albert Ploegh - ING - Analyst

Yes, good morning all. A couple of questions from my side. First is on the core capital target of 75%. I recognize the progression made on the surplus capital, but nevertheless the upcoming sale of Transamerica Re, which still I think potentially will be sold below book, you will get basically a hit on this ratio as well as you redeem the state aid. So how comfortable are you still on achieving this target without alternative measures, like still a small equity issue, to give some comfort there?

Second question would be on the longevity risk. You gave some clear guidance there, but is it possible to give maybe the size of the current provision for longevity risks and to what kind of technical reserves it is related, to get a bit more feeling of size and scale?

And finally on the derivatives impact in the Netherlands, that was always a very difficult line to forecast. But, yes, the size was pretty big in the third quarter. Is there any explanation for this?

And then how to look at Q4 as interest rates I think have on average moved up slightly? Thank you.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes. Thank you Albert. Your first question about 75% and going forward, I think we feel comfortable because we have a target for the end of 2012. It's also you have to take all kinds of issues into account. It's results in the first place, which add to the shareholder's equity. Second place is a potential transaction of Reinsurance business has a lot of complicated accounting issues so it's, I think it's too early to say anything about that.

It's, as we have said also earlier, selling a reinsurance business is a complicated business. It has to do also with all kinds of transactions, reinsurance transactions. So the accounting of that still has to be considered and it's difficult to say anything at this moment in time. So I -- the only thing what I can say -- and we know more than you do -- but we feel comfortable about the target for 75% over two years.

The second question is the longevity risk. We are assessing and of course all accounting around longevity risk. And I have also said what we believe is the impact on our earnings, we have said that we don't believe that has any impact on our Q4 underlying earnings or at net income of the Netherlands. We also have given you an indication maximum [SNP] of EUR250m. I think based on that you can do a lot of calculation that it is substantial, but all in all not for us as a global company.

Derivatives, that's an interesting question because if you look at the markets and the volatility also in Q3, I think the outcome was very positive, especially for the Netherlands. And if you ask me do you expect the same amount or that magnitude in Q4, it's more likely that it is less and could also be even minus. It is a fair value item and guarantees have gone up because of the markets. But I can tell you that we have a very, very good

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hedging program. Based on the experience I have on the last couple of quarters the results were as we had expected. So I feel quite comfortable, but, as you also have said, is that it's a high amount for the Netherlands for this quarter.

Albert Ploegh - ING - Analyst

Maybe a bit of a follow-up on the last one. Also if you look at your IGD ratio compared to some other local Dutch players, that basically reported decline in the third quarter. You have moved it up slightly, basically also shown I think some different hedging approaches. So how in general are you positioned in the scenario that interest rates do rise? Is it then basically some things will turn quite negatively or do you also have the upside available for you as well?

Jan Nooitgedagt - AEGON N.V. - CFO

No, I don't think we, if rates go up -- because we have, as we have said, in the Netherlands fully hedged. I also don't believe that it has a very negative impact on our IGD ratios.

Albert Ploegh - ING - Analyst

Okay.

Operator

Thank you. The next question is from Farquhar Murray from Autonomous. Please go ahead.

Farquhar Murray - Autonomous Research - Analyst

Morning, gentlemen. Just two questions from me. Just in terms of the stat earnings, I mean in terms of excess capital bridge obviously we're looking at about EUR0.6b of stat earnings coming through in the quarter. That looks a little bit high versus recent run rate and I just wondered if you could give an explanation about what drove that? And in particular whether obviously it has any implications for the EUR1b-type number you've discussed before in terms of free capital from the sub level?

And then secondly just on the longevity issue, presumably you're going to bleed some of that through earnings in the future. And I just wonder if you could give us a sense of the time-frame, i.e. is it over 20 years for instance? And is there any particular lump about where that will turn up in the future? Thanks.

Jan Nooitgedagt - AEGON N.V. - CFO

Thank you for your questions. About the gains investment, stat earnings.

Michiel van Katwijk - AEGON N.V. - EVP

Stat earnings were high this quarter, Farquhar, because we have had higher realized gains during the quarter as well. I think that you should not expect this level as a base level going forward. And we would also look at this quarter as a very strong quarter for stat earnings.

Jan Nooitgedagt - AEGON N.V. - CFO

The longevity in the Netherlands, I think it's good to understand this that we are talking about a very, very long period, and there's more than 50, 60 years it can be. So the impact, clearly there is an impact, but if you take over such a long period of time it is a very limited impact and it will go up. What we also do in our Dutch business that we keep strengthening our reserves based on actual experience, which we have been doing already for the last 10, 20 years. So the impact really for the short term is very, very limited.

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Farquhar Murray - Autonomous Research - Analyst

Thanks.

Operator

Thank you. The next question is from Jan Willem Weidema from ABN AMRO. Please go ahead.

Jan Willem Weidema - ABN AMRO - Analyst

Good morning all. Sorry, a few questions. Firstly, the longevity item, will that have an impact on equity in your Dutch holding company right away or only when the earnings filter through?

And now that the longevity issue is known, do you expect Dutch regulators to become more lenient to upstreaming from capital from the operating company to the holding company?

With regards the tax benefits in the US of non-DPA losses, can we expect more of that going forwards?

Thirdly, the \$20m impact of interest movements, is that compared to this quarter or to what run rate? That was it for now.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes, about your first question and the impact on equity in the Netherlands, first of all we are not yet finalized the whole review of the impact of change in mortality tables. But what's important is to understand is that in what we use in the Netherlands is so-called adequacy test, liability adequacy test, and the outcome of that test is important how to account for the longevity. But the outcome is also, in that sense, it could always have also going forward an impact on equity.

But, as I said earlier, the impact, that has to do with all kinds of, yes, the interest rates and also in that the way you do the adequacy test. And that outcome, we still have to do a reviewing the whole impact of longevity on our equity. But it, the impact on earnings, as I said earlier, is very, very limited.

The next question was about the \$20m, you mean? Is there something, Darryl, you want to add? We have said -- your question was, was it based on this quarter? We have calculated based on the interest levels of today and also taking into account the results of this quarter for the US business. Darryl, if you want to add.

Darryl Button - AEGON N.V. - CFO, AEGON USA

Yes. I would say it's obviously a bit of a soft estimate because you hit on the issue it's compared to what.

Jan Willem Weidema - ABN AMRO - Analyst

Yes.

Darryl Button - AEGON N.V. - CFO, AEGON USA

And as we look forward into next year in the great environment that we're in and we compare it to where our projections were a year ago, and that year-over-year basis reflecting the fact that rates have been lower than what we estimated last year and we see them staying lower into 2011. When we put that all together and take a look at what the impact that's having on our earnings, we're coming up with a little less than 5%, which is around the \$20m a quarter that you're seeing.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes, the second one was the question about the tax benefits. What I can tell you is that we do every quarter, we assess our deferred tax assets, what is realizable and what is not realizable, and based on that we do our accounting for this quarter. And also in the future you could have benefits from that assessment quarter by quarter.

Jan Willem Weidema - ABNAMRO - Analyst

And can you maybe say how big the unrecognized portion of losses is currently?

Jan Nooitgedagt - AEGON N.V. - CFO

I cannot give you an answer about that, but we do every quarter an assessment of what is realizable and what's not realizable. But the whole amount, what our tax position is at this quarter, yes, that depends also heavily from the financial markets of course.

Jan Willem Weidema - ABNAMRO - Analyst

Alright, thank you.

Operator

Thank you. The next question is from Chris Hitchings from KBW. Please go ahead.

Chris Hitchings - Keefe, Bruyette & Woods - Analyst

Hi. Thanks very much indeed. A couple of issues. Just following up on the tax, is it possible for you to help us --- rather than ask a complicated question; let's ask a simple one. Can you guide us as to how much longer you reckon the super-low tax charge that you've been enjoying and will persist? I seem to have notes that there were exceptional elements in the past and that it would return to normal, but it doesn't. Can you help us a little bit more on that?

Secondly, a technical thing, are you disclosing your US RBC ratio at the moment?

Third question, big reduction in the loss from run-off businesses and can you give us some guidance as to what the likely ongoing run rate there is now?

And finally, I mean you gave us a lovely slide on how the [promise], the impact of low interest rates and if they persisted. It didn't seem to have any numbers conclusions. Could you tell me, just as a theoretical exercise, if interest rates stayed where they were for the next decade how long before your earnings become negative? Have you done that test and could you share us the answers? Thank you.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes, thank you for your detailed good questions, Chris. Tax, I can understand that you have the feeling is this is very difficult. And you are right because -- but that has also to do with the past, our history, the financial crisis we have gone through, the losses we have made which are not all recognized. The fact that we are able to recognize these tax losses now is by making tax profits. And maybe Darryl will -- can a little bit say more about that.

And that is going forward -- every quarter, what I said earlier, you have to make an assessment of your tax position of what is, what do you feel is realizable, what's not realizable. And that's -- we do have a lot of tax losses going forward and we take into account what we can realize under the IFRS current rules.

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Yes, is there a lot to say more? Probably when markets improving at a certain point in time we'll have more and more a normal, decent tax charge in our account. But the financial crisis we just have behind us, the losses, so we probably will have some benefits going forward. Is that, Darryl, a good summary or a --

Darryl Button - *AEGON N.V. - CFO, AEGON USA*

Yes, I think that is a good summary. I think, Chris, what you're seeing is you're seeing the capital losses that we took through the heart of the crisis are now coming, the tax benefits of those are now coming through in US tax code. You have to offset tax capital losses with capital gains. This is one area where the low interest rate environment is actually helping our tax planning strategies in being able to crystallize capital gains to offset those capital losses. So we're seeing tax benefits come through.

You also asked about RBC ratio; I'll go ahead and answer that. We expect it to be - it's an estimate as you know and we'll calculate at the end of the year -- but I think we're in the high 300s right now.

Chris Hitchings - *Keefe, Bruyette & Woods - Analyst*

How high?

Darryl Button - *AEGON N.V. - CFO, AEGON USA*

How high? In the 390s.

Chris Hitchings - *Keefe, Bruyette & Woods - Analyst*

How high in the 390s?

Darryl Button - *AEGON N.V. - CFO, AEGON USA*

Come on, Chris. I think the answer is as far as my estimate goes, Chris.

Chris Hitchings - *Keefe, Bruyette & Woods - Analyst*

Thank you.

Jan Nooitgedagt - *AEGON N.V. - CFO*

So as estimate, that's far enough.

Darryl Button - *AEGON N.V. - CFO, AEGON USA*

I think there was another question on the run-off business being better; maybe I'll go ahead and deal with that one as well. We did do some training for ALM in duration management purposes in the fixed annuity portfolio. Unfortunately that led to a trading off and selling away of some of the transfer assets in the institutional run-off portfolio and fixed annuity portfolio. That had the effect of reducing the yield transfer between the two portfolios so you actually see a little bit of a compression in the fixed annuities with an offset of better earnings in the run-off portfolio.

Jan Nooitgedagt - *AEGON N.V. - CFO*

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The -- if I may add about your last question about low interest environment, if you ask about the decade, the coming 10 years, of course we make scenarios with our risk management people about all kinds of scenarios for the coming years. But I think that what you should also keep in mind is a change in our business mix, in our strategy, from more flat-based business into fee-based business, which of course is we are depending in future less on interest rates.

We have given you some guidelines based on our earnings and a low interest rate this quarter for the coming year, for 2011. This is I think a big help for you as well to have a feeling about our -- how sensitive we are for the low interest environment, especially in the US. We have also given you a couple of times I think guidelines that we are fully hedged in the Netherlands. We have a [big] ALM matching in our fixed annuity business. And you also know our business in the UK, I think, Chris. We cannot tell you how the world will be over 10 years, but we will manage also under this low-interest environment. But we also have said that it is of course not positive for the industry.

Chris Hitchings - Keefe, Bruyette & Woods - Analyst

Yes. It was a just a question of how negative. And on the run-off business, sorry just can I clarify that? Are you suggesting that this compression is a one-off in this quarter or will that persist?

Darryl Button - AEGON N.V. - CFO, AEGON USA

No Chris, I think where we're at is a more of a persisting level going forward. And there was about a \$20m flip between the run-off portfolio and the fixed annuity portfolio and I think that that's a persisting number going forward.

Jan Nooitgedagt - AEGON N.V. - CFO

And Chris, maybe to add related to your question on low interest rate, we have indicated that we think that the quarterly impact on earnings for our Americas business will be \$20m. So that gives you an indication of the magnitude for low interest rate.

Darryl Button - AEGON N.V. - CFO, AEGON USA

For the low interest. Yes, for low interest rate.

Michiel van Katwijk - AEGON N.V. - EVP

Yes, that's what we have said.

Chris Hitchings - Keefe, Bruyette & Woods - Analyst

Yes, but it's a question of what impact it has as the assets run off. That's the issue. 2011 most people should be able to cope with it.

Jan Nooitgedagt - AEGON N.V. - CFO

I think, Chris, this is everything we'd like to tell you now. But maybe next question?

Operator

Thank you. The next question is from Francois Boissin from Exane BNP Paribas. Please go ahead.

Francois Boissin - Exane BNP Paribas - Analyst

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Yes. Good morning, gentlemen. Just two questions on my side please. The first one is on realized gains, you booked EUR129m this quarter, and this question is where the proceeds were reinvested and what is the intention going forward? Do you still intend to realize further gains on fixed income securities?

And second question relates to Central and Eastern Europe and the change in regulation in Hungary and potentially in Poland. Could you give us more color on this and give us maybe the extent to which AEGON could be impacted on that?

And longer term, do you still view Central and Eastern Europe as a priority or do you see LatAm and Asia as more important going forward? Thanks.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes, thank you for your questions. Let me first say about the realized gains. If you look at our total portfolio, really this is fully in line with our ALM policies. I think you should see these realized gains as the result of normal business in our assets. I don't think we -- this is anything to add more on realization of these gains.

If you ask me about Hungary and Poland, yes, we are also concerned about the steps the governments are intending to make in Hungary. It's very early to make any assessment of that on our business. Really we still believe that also the pension business in Hungary and Poland are very attractive for us for the longer term. You know it's a temporary measurement they have taken now in Hungary. And we also believe that the CEE as a region, it's very attractive for us and we have -- and we see there, for our new markets, Poland and Turkey and also of course Hungary as very attractive.

Francois Boissin - Exane BNP Paribas - Analyst

Right. So you don't -- there's no change in status following this change in regulation? It's still a high priority region?

Jan Nooitgedagt - AEGON N.V. - CFO

Right.

Francois Boissin - Exane BNP Paribas - Analyst

Your base-case expectation is that it's just going to be temporary and the long term remains attractive.

Jan Nooitgedagt - AEGON N.V. - CFO

We also consider of course all kinds of assessment from also in Hungary and we're not pleased with the announcement of the government and what they have decided. But we feel that the markets are very attractive for us.

Maybe one more question? We are running out of time so the last question.

Operator

Thank you. The last question is from Thomas Nagtegaal from RBS. Please go ahead, sir.

Thomas Nagtegaal - RBS - Analyst

Good morning. I've got two questions remaining. First of all, on life reinsurance, the trend looks a bit weak if you look at the previous quarters this year. Was there any impact from mortality there and can you say anything about profitability going forward?

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And second, could you potentially give the impact of the Dutch longevity charge on your Dutch business as standalone? And what would have been the IGD impact there? Thanks.

Jan Nooitgedagt - AEGON N.V. - CFO

Yes, thank you for your question. Starting with the last one, standalone or even a part of AEGON, we believe that still with the IGD we'll have -- we'll be above 200%. And excess capital we have said excess capital we have said the EUR250m impact. If you talk about life reinsurance, the impact this quarter, maybe Darryl, you can add something on that?

Darryl Button - AEGON N.V. - CFO, AEGON USA

Yes. The biggest impact in the quarter was the \$22m change we had for the variable annuity lapse assumption. So that, we look at that as a one-time hit. There's other pluses and minuses. Mortality was a little soft in the quarter. The other pluses and minuses net out to about another \$5m soft so between the two I think we're maybe about \$27m below what I was expecting.

Thomas Nagtegaal - RBS - Analyst

Okay. And it's more or less in line with what you consider to be a normal run rate at this point in time?

Darryl Button - AEGON N.V. - CFO, AEGON USA

That's correct.

Thomas Nagtegaal - RBS - Analyst

Yes. Okay, thank you.

Jan Nooitgedagt - AEGON N.V. - CFO

Thank you. Thank you all and I hope to see you again in New York. Thank you.

Operator

Thank you sir. Thank you ladies and gentlemen. This does conclude today's presentation. Thank you for participating. You may now disconnect.

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