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Conference Call Transcript

AEGON - Q4 & Full Year 2010 AEGON N.V. Earnings Conference Call

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Operator

Welcome to the AEGON fourth quarter 2010 results conference call for analysts and investors on February 24, 2011. (Operator Instructions). I will now hand the conference over to Mr. Alex Wynaendts. Please go ahead, sir.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Good morning and thank you for joining us. We welcome this opportunity to update you on today's announcements. And joining me here we have Jan Nooitgedagt, our CFO, Michiel van Katwijk, Executive Vice President, Finance, Darryl Button, our CFO of the Americas, and Gerbrand Nijman, Head of Investor Relations. And as usual after presentation there will be ample time to answer your questions. I'm turning to slide two and before getting started let me just remind you to take a moment to review our disclaimer on forward-looking statements.

Then slide three, this morning we are announcing a number of key developments consistent with our strategic focus and the aim of completing full repayment of EUR2.25b to the Dutch state by the end of June this year. The first we are providing you with AEGON's fourth quarter results. Second, we are announcing an equity issue of 10% of common share capital through an accelerated book bill offering, which will begin today. And finally, we are announcing financial targets reflecting the strategic changes we've been implementing. We will pursue sustainable earnings growth with an approved risk-return profile and a strong capital position, and intend to resume paying dividends over the second half of 2011.

The 10% equity issue together with our own resources, including any proceeds from divestments, will enable us to fulfill our commitments to complete full repayment to the Dutch state. The equity issue will allow us to maintain some capital buffer and to achieve our targeted ratio of 75% of core capital by the end of 2012.

The Dutch Central Bank, the DNB, has given its consent to the repurchase of the first EUR750m of core capital immediately following the equity issue. Furthermore, DNB supports AEGON's actions toward repurchasing the remaining EUR750m of core capital, which requires DNB's formal consent in June 2011. DNB's consent is conditional on the financial markets not deteriorating materially.

Slide four, so let me now turn to our earnings for the fourth quarter. Underlying earnings before tax increased to EUR489m. This is a 2% increase compared to the fourth quarter last year. Earnings include a EUR30m charge related to an ongoing program to correct historical issues within our customer policy records in the UK. Those include the release EUR28m related to a one-time favorable employee benefit plan release in the Americas.

Net income amounts to EUR318m and was driven by higher underlying earnings, positive contribution from fair-value items, lower impairment and realized gains. Charges related to restructuring in the US announced in December and pension legislation change in Hungary also had an effect in the decreased net income.

Slide five, sales development in the quarter, new life sales amounted to EUR558m. Higher sales in the Netherlands were due to strong pension sales and continued strong single-premium production in Central and Eastern Europe. In the Americas, the growth in retail life sales was offset by lower life reinsurance sales, while in the UK, in line with our strategy, higher pension sales were offset by lower annuity sales.

Gross deposits, excluding runoff businesses, increased 16% to EUR7.8b, driven by US pensions, variable annuities and AEGON Asset Management. Throughout the year AEGON recorded strong net deposits of EUR5b, driven by strong developments in US pension business, variable annuities, retail mutual funds, and asset management, which is a clear demonstration of successful execution of our focus on fee business. Total outflows for the fourth quarter amounted to EUR500m. These were caused by spread businesses, mainly our US fixed annuity and Dutch savings business. The value of new business declined to EUR141m, mainly as a result of the strategic shift in business mix from spread to fee business, including the impact of deemphasizing fixed annuities in the US.

Slide six, AEGON's excess capital position remains strong and increased during the fourth quarter to EUR3.8b, above AA capital adequacy requirements. Of the EUR3.8b of excess capital, EUR1.7b is held at the holding company and EUR2.1b is held within our operating units. Not all but a meaningful part of excess capital in operating companies is fungible. And last quarter, we indicated that we expected a negative impact on excess capital of a maximum of EUR250m due to increased longevity in the Netherlands. The actual impact is slightly lower at EUR225m.



Slide seven, the full repurchase of core capital securities, including the agreed 50% premium, amounting to EUR2.25b, will lower our core capital by the same amount. Part of this decrease will be compensated by raising equity in order to maintain a strong capital position and achieve our targeted core ratio of at least 75% by the end of 2012. The remaining amount will be generated from internal resources.

The EUR2.25b repayment to the Dutch state has a negative impact of approximately 10 percentage points on our core capital ratio. Of this negative impact, at least 6 percentage points will be compensated by internal resources, including retained earnings and any proceeds from divestments. The equity raising will account for an improvement of approximately 4 percentage points. At the same time, we target a buffer in the holding of 1.5 times our annual holding expenses. Currently these expenses amount to EUR600m on an annual basis, which leads to a buffer of around EUR900m.

Slide eight, so last June, as you know, we announced that we see a limited long-term strategic fit of the life reinsurance business with our core businesses of life insurance pensions and asset management. And we announced that we would explore strategic options for the business. We are currently in negotiations with a party on the divestment of Transamerica Reinsurance and will communicate at the earliest opportunity if and when these negotiations grew successful. The progress we've made over the past months has been in line with our expectations. This is really all I can say on the matter at this stage.

Slide nine, we have transformed AEGON significantly over the past few years. We have considerably improved our risk-return profile. We've implemented substantial cost reductions and we've appointed new management teams in our main markets. We have restructured our US operations into three divisions that are focused and we are currently executing the plans to lower our cost base in the UK by 25%.

2011 marks the end of the first phase of our transformation. All major businesses have been reviewed since the start of the portfolio review initiated almost three years ago. The result of this sharpened focus on our core business have resulted in either running off or exiting of a number of businesses and markets.

We are shifting to a more fee-based income model and this means being less dependent on spread income and, as a result, being less vulnerable to financial markets. At the same time, we are continuing to develop a better geographical balance, investing in those regions that offer higher growth and returns of the long term. All of these actions to reallocate our capital, to increase returns and optimize and leverage our global resources are aimed at achieving sustainable earnings growth with an improved risk-return profile, leading to sustainable cash flows and dividends to our shareholders.

Slide 10, let me further detail what it is we aim to deliver. In 2011 underlying earnings will be affected by strategic management actions. In the medium term, we will grow underlying earnings before tax by 7% to 10% from the new base of underlying earnings. This will be achieved through improved cost efficiencies and capital reallocation to areas with higher growth and return prospects.

We'll continue to improve our risk-return profile. As you know, we are running off a number of spread business in the US. We have increased our hedging of market risk and are shifting towards more fee business. We expect that by 2015, approximately one-third of underlying earnings will be generated by fee business. The result, we will generate a return on equity of 10% to 12% in the medium term.

We will also continue to maintain a strong capital buffer and increase core capital as a percentage of total capital to at least 75% by the end of 2012 as I just mentioned. And we will increase annual operational cash flows by 30% from the current normalized level of EUR1b to EUR1.2b by 2015. And this will enable us to pay a sustainable dividend to our shareholders.

Slide 11, as I just mentioned, underlying earnings before tax in 2011 will be affected by strategic management actions. The divestment of Transamerica Reinsurance would reduce our underlying earnings before tax by about EUR80m per year. In December, we shared with you that we had decided to wind down the small bank BOLI and COLI business in the US. And this will move EUR50m of earnings out of underlying into runoff line of business in 2011.

And in addition, as part of the new pension legislation in Hungary, mandatory pension fund assets have been taken over by the Hungarian state during the first quarter 2011. In Poland the government announced plan to reduce contributions to private pension funds. And we expect these measures to have a combined negative impact on underlying earnings of approximately EUR25m for the full-year 2011. And from this new base we want to grow our underlying earnings on average by 7% to 10% per year going forward.

Slide 12, let me now give you more insight into a number of key areas on how we will achieve sustainable earning growth. In our established markets, we want to grow a number of key businesses while at the same time further improve overall cost efficiencies.



Couple of examples, we are on track in implementing a new operating model in the UK to reduce cost in our life and pension business by 25%. We've restructured our business in the US into three focused divisions and are capturing a broad range of synergies. These include further cost reductions by consolidating operations and running off businesses while growing our pensions business in the US. This is a core growth area, where we've established a very strong position. In the Netherlands, we aim to reduce cost by 20% in our core life insurance and pension business and this is needed to offset margin pressure on the life side and to invest in new distribution capabilities.

We will also continue to invest selectively in growth markets in both our established markets and in our new markets. Reallocating excess capital generated in our established markets to grow our business in new markets supports our key objective to improve the geographical balance of our capital allocation.

Slide 13, improving AEGON's risk-return profile has been a consistent focus of the past few years, something we'll continue to pursue. Our aim of increasing returns is supported by the reallocation of capital to businesses with high returns. This in culmination with solid growth in sales, deposits and earnings we expect will result in a return on equity of 10% to 12% in the medium term. The shift from spread to fee business is supported by focus on pensions, variable annuities and retail funds, and in addition with clear ambitions to grow our asset management business globally.

In our aim to further reduce credit risk on our balance sheet, we'll be focused on completing the runoff on a number of our businesses in the US, while at the same time deemphasizing sales of fixed annuities. In addition to lowering our credit risk, we'll also further reduce equity risk by full hedging delta equity risk related to our VA GMIB back book in the US. And finally, we expect to reduce interest rate risk by stepping up our interest rate hedging programs.

Slide 14, AEGON's operating subsidiaries are generating healthy operational cash flows. Our objective is to grow annual operating cash flows from the current normalized level of EUR1b to EUR1.2b by 30% by 2015. It is our intention to resume dividend payment on common shares after our full repayment to the Dutch state. Going forward, we aim to pay sustainable dividend, which can grow over time if performance of the Company so allows. Our dividends will be based on our free cash flow and our capital position. Currently we intend to pay EUR0.10 a share related to second half 2011 payable in May 2012.

So before taking your questions let me again emphasize that AEGON today is a different Company than just a few years ago, with an improved risk profile, reduced cost structure and an organization better aligned to capture the clear opportunities ahead for our businesses. We have completed the first phase of our transformational plan and will continue to pursue our shift to more fee-based income and a better geographical balance in our capital allocation. With the full repayment to the Dutch state, AEGON will turn a decisive corner and is well positioned to deliver earnings growth, improved cash flows and a sustainable dividend.

Thank you for your attention. I'm now happy to take your questions.

QUESTION AND ANSWER

Operator

Thank you sir. (Operator Instructions). The first question comes from Farooq Hanif from Morgan Stanley. Please go ahead. Your line is open.

Farooq Hanif - Morgan Stanley - Analyst

Good morning everybody. I've got three questions. Firstly, can you describe in a little bit more detail what's driving this 30% increase in free cash flow and what the shape of the increase will be between now and 2015?

Secondly, you made a statement about capital fungibility saying that there's a meaningful increase in the fungibility. Could you explain where that's from? I'm guessing it's mainly the US. And just are there any numbers you can give us around that?

And thirdly, your ROE target, how much of it is dependent on you making disposals of existing businesses that you don't want to be in anymore? Thank you.



Alex Wynaendts - AEGON N.V. - Chairman and CEO

Thank you Farooq for your questions. In terms of cash flows, we've been focusing on improving the generation of operational free cash flows for already some time. This is a culmination of being more efficient with our business in terms of addressing cost. It's a culmination of also being more effective in the way we develop our products and the amount of capital which is used for our products - in other words, there will be less capital employed for new business - together with the overall growth of our business. So these three elements are the main drivers of improving our cash flows going forward.

Your question on fungibility in the US, yes, we're saying that we have excess capital in operating units. I said that we see that we're saying that not all of that capital is fungible. It is true that in the -- the capital from the US has been more fungible recently.

And in terms of the return on equity, the return on equity assumptions we're making is based on the business as we have them today. So we are not making assumptions of significant disposals. What we want to do here is further improving our earnings, being more effective with our capital and continue to invest in areas with higher growth, as we've been saying already for some time. So all these elements together will lead to a higher return on equity. Yes, the main impact from -- in terms of return could be from a potential sale of Transamerica Re.

Farooq Hanif - Morgan Stanley - Analyst

Just coming back on one point very quickly, on the fungibility issue, the fact that it is fungible, does that mean you're going to exploit that or would you rather keep buffers closer to the operating companies?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

We have to find the right balance there, Farooq. We have to find a balance between having companies which are strongly capitalized in the US. We need a company which is strongly capitalized. That's the way for running our business. We have our customers, who want a strongly capitalized company. And at the same time we also have to be able to upstream some of that excess capital to the holding for the purposes of repaying the Dutch state and purpose of paying dividends in the future. So we have to find and we'll be looking for the right balance.

Farooq Hanif - Morgan Stanley - Analyst

Right. Thank you very much.

Operator

The next question comes from Johnny Vo from Goldman Sachs. Please go ahead. Your line is open.

Johnny Vo - Goldman Sachs - Analyst

Yes, morning. Just a couple of questions. I know you said the dividend relates to the cash flows and the capital position of the Group. But is it that, the idea that the dividend policy should be a progressive policy or is it purely linked to those things that you've identified?

And just in terms of the impairments, can you just give us a feel of what's going on there because obviously it's at a reasonably high level? Is this the normalized trend or are we expecting this to come back down again? Thanks.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

In term of dividends, Johnny, what we're saying is that we're indicating our intention to pay EUR0.10 on the second half 2011. But we've also said we want to pay a sustainable dividend and I mean a sustainably growing dividend together with the way our business is growing. And it will depend on the cash flow generation, the free cash flow generation, which we'll be able to also bring to the holding level, and the overall strength of our balance sheet. So that is how we look at the dividend.



In terms of impairments, what we see here is we've had, I would say, impairments on Irish banks, which will not happen again. So in that sense these impairments have been taken. What we see in general in our US portfolio is that impairments have been trending towards a lower level. And we don't expect that the impairments in the US will change significantly but they will continue to trend lower over the course of time. And we see probably a further improvement of in terms of impairments in the second half of 2011.

Johnny Vo - Goldman Sachs - Analyst

Okay. Brilliant.

Operator

The next question comes from Michael van Wegen, Bank of America - Merrill Lynch. Please go ahead, sir. Your line is open.

Michael van Wegen - Bank of America - Merrill Lynch - Analyst

Yes, good morning. Mike from Bank of America Merrill Lynch. A couple of questions as well. First one, you're talking about increased fungibility. That to me sounds like you might as well have waited until later in the year and upstream capital rather than do a 10% capital increase today. Can you talk me through the logic of this?

And secondly, with the capital raising that you announced today effectively continue to de-lever the Company, how should I read that combined with the targeted improvement on return on equity? Not entirely sure how we should get to 11% or 12%. Thank you.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Michael, let me remind you that the full repurchase the core capital securities, including the 50% premium, is amounting to EUR2.25b and this will lower the capital in our balance sheet by exactly the same amount. So that's a significant amount and I've given you an indication that that represents around 10 percent points in relation to the 75%. So what we're doing today is raising 10% of equity. And we said that's approximately 4%. And that shows you that the majority, that's the remaining 6%, is being generated from internal resources over a period of around two years.

So when you look at capital which is upstreamed to the holding level, that's one element of it. But we also have to look at the core capital ratio and that is equally important. And these two are not the same numbers.

The second question you're asking about the return on equity. We feel that the return on equity of 10% to 12% range within the current environment is an attractive return on equity. And that requires us to continue to grow our business, continue to be very effective with our expenses, also be efficient with the capital which we'll be employing, while at the same time deploying more capital and reallocating capital to areas of higher growth. And a combination of these factors we feel will allow us to get to the 10% to 12% in the medium term.

The other point you were making about the core capital securities, effectively what we are doing is we are further deleveraging our balance sheet by replacing the core capital securities by 10% equity. So that also has an effect on the return on equity in terms of the math you're doing.

Operator

The next question comes from Thomas Nagtegaal from RBS. Please go ahead. Your line is open.

Thomas Nagtegaal - RBS - Analyst

Good morning gentlemen. Thomas Nagtegaal, RBS. A couple of questions. First of all, on your minimum capital buffer, now that you need to keep EUR900m at holding level, does it change your target of about EUR1.5b for the whole Group?

Second, on your core capital target, could you please elaborate a bit on why you chose an equity issue? Do you also have some room for organic debt reduction driven by your strong capital buffer on that side?



And finally on again a bit on the ROE, what kind of capital buffer do you include in the calculation? So it's based on the current capital base or at the optimal capital buffer, and which we need to use to calculate the ROE over? Thanks.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Thank you, Thomas, for your questions. Yes, we said the minimum capital buffer needs to be 1.5 times the expenses at the holding. We haven't given an explicit goal for excess capital in the units so we haven't really changed the total. What we're being now is more explicit on the amount which we want to hold at the holding.

Thomas Nagtegaal - RBS - Analyst

Okay.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Okay. Your question on the return on equity, yes, we have assumed for our calculations the amount of equity which we currently have. So we have not assumed that we take off, if I understand well your question, all the excess capital. We have assumed that we're running our business with a strong balance sheet, strong capital position. And on that basis, we have made the calculations on the ROE.

Thomas Nagtegaal - RBS - Analyst

Okay. That's very clear.

Operator

The next question comes from William Elderkin from Soc Gen. Please go ahead. Your line is open.

William Elderkin - Societe Generale - Analyst

Thanks. Good morning everybody. It's William Elderkin from Soc Gen. I've got three questions please. First one, I see in terms of your ambition for your geographic earnings mix, you're talking about that in earnings terms rather than capital terms, which I think you've used previously, 15% to 20% new markets compared to 30% to 35% of capital. Should we be reading anything into that, particularly in terms of your appetite for acquisitions as opposed to organic growth?

Second question is in terms of the free cash flow, referring to slide 14. Of I think the EUR700m you show, how much is really available for dividend payments? In your mind is some of that effectively reserved for investing in other projects and so on? I believe in the past you talked about EUR200m to EUR400m for those kind of purposes.

And then the final question is, within that 7% to 10% underlying earnings growth assumption, can you give us a sense of what you're assuming in terms of the balance of the US fixed annuity portfolio development in terms of how that account balance will be, say, 2015 compared to where we are at the end of 2010?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Yes, thank you William. So your first question in terms of earnings, yes, we wanted to give you a picture in terms of earnings. And this is very clearly focused on organic growth. We have established a strong base in Spain. We established a strong base in Central and Eastern Europe. We're making good progress in Asia. As you know, we're developing our business in Brazil and Mexico. And we're really focusing on developing these businesses on an organic basis. And --



William Elderkin - Societe Generale - Analyst

Would -- sorry, would it be fair to then to characterize that as a material change in guidance? My impression previously was very much that you were saying we will be doing acquisitions to get to that new market capital allocation target. And now you're saying this is an organic story.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

What we're saying here it's an organic story because we feel we have a strong basis on which we can develop our businesses and that's what we'll be focusing on. Also, keep in mind asset management. We've been rolling out our asset management as a separate division, where we are now serving our life customers. We're developing a third-party business. And all of these elements together should be helping us to achieve this 15% to 20% target we've set ourselves into, earnings in what we've called our new markets.

Your question on slide 14, the free cash flow, what we have said is that we believe that there's around EUR600m to EUR700m of free cash flows on a normalized basis. That needs to be upstreamable fungible to the holding. And we're working hard on getting that done. That will be a basis of course to paying our dividends. We want to keep some flexibility also at the holding. Markets remain uncertain. We see again recent developments in Northern Africa. So it's important that we keep a strong capital position in the holding level but also in the operating level.

And finally, your question on fixed annuities, I'm happy Darryl is here. And I'll pass him on to you.

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

Yes, hi, William. We've been experiencing -- we're not writing new business, as you know. The negative outflows per quarter has been pretty consistent and steady at about EUR600m a quarter. I don't see that really changing in the near to medium term. That's based on about a 10% decrement rate. It is a function of the yield curve, however. If interest rates go up significantly, that decrement rate, that lapse rate will go up and that EUR600m a quarter of outflow will go up. Rates have been so low that the recent up-tick in interest rates really hasn't changed that number. But if we go up materially from here that EUR600m a quarter will go up.

William Elderkin - Societe Generale - Analyst

Could I just come back on the second point in terms of the normalized free cash flow? And of that EUR600m to EUR700m, can you give us a sense of how much we can assume of that is available for paying dividends to common shareholders?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

William, what we said is we'd be paying EUR0.10 over the second half 2011, EUR0.10 a share.

William Elderkin - Societe Generale - Analyst

I mean broadly are you saying 50% to 60% of that might be a number to work with?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

What we said is that we set ourselves an amount for the second half of 2011 of EUR0.10 per share. What we've been providing you on the slide, slide 14, is the operational cash flow and the holding expenses, and that is the expenses for running the holding but also at the expense for servicing our debt. And that leaves an amount of EUR700m and I think you will have to do with that. We've given you guidance on the EUR0.10 per share of the second half.

William Elderkin - Societe Generale - Analyst

Thank you very much indeed.



Operator

The next question comes from Jan Willem Wiedema from ABN Amro. Please go ahead sir. Your line is open.

Jan Willem Wiedema - ABN Amro - Analyst

Good morning gentlemen. A question on what you've assumed in your guidance, in your ROE guidance, what to do with the excess S&P source. Have you also included, for instance, assumptions on buyback of hybrids or what kind of returns you have assumed then under the amount?

And also what are your assumptions on impairments and other items of your earnings there?

And finally, on slide seven you mentioned more than 6% from internal resources. On my numbers you arrive at 6% already just from net profit so could give a range there what you think that will be including divestments?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

On the first question I wasn't sure if I understood correctly your question. Could you please repeat it?

Jan Willem Wiedema - ABN Amro - Analyst

Yes, on the back of the envelope here you've EUR3.8b excess S&P capital. You will do an equity raising, sell Transamerica Re and pay back the State so you probably have significant excess solvency. What have you assumed in your ROE guidance what to do with that excess solvency?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Yes, okay. Thank you for clarifying this. As I said on the ROE, we've been consistently saying that we want a company going forward with strong capital position. And I mean strong balance sheet ratio, that's 75%, strong excess capital position and the ROE, which we are giving you, is based on a company with a strong excess capital position because that's the way, the strategic direction we want to go forward. So that's on that basis.

The second thing is your question around the 6%. What we are saying here is that 6% will be compensated over the next two years by internal resources but I also said including potential proceeds from divestments. It is clear that the 6% for the largest part is being generated through internal resources like returned earnings.

Operator

The next question comes from Nick Holmes from Nomura. Please go ahead. Your line is open.

Nick Holmes - Nomura - Analyst

Good morning. Yes, I have just one question, which is with the capital raising today and also the potential disposal of Transamerica Re, plus all of the de-risking that's happening in your business, is there do you think a possibility that you will become basically over-capitalized? It looks as though this could happen within a year or two and in that context would you then start to look at returning capital to shareholders? Thank you.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Nick, thank you. Thanks for this question. What we've tried to explain here is that what we're looking is at our excess capital position on an S&P basis, but that we're also clearly looking at the ratios in our balance sheet, the core capital ratio on our balance sheet. And what we've been showing here, and this was on slide seven, is that the repayment of the EUR2.25b to the Dutch State has an impact, a negative impact of around



10 percentage points on our core capital ratio. So it is therefore needed to do this equity issue, which will contribute to 4%, while we can contribute for the 6% ourselves internally.

I think that it is clear that in today's environment in the industry which we are in, not forgetting that the crisis we've had recently, it is the right thing to be well capitalized. And I don't think we're over-capitalized. We are well capitalized. We want to have a strong balance sheet, we want to have some flexibility and that's the way we will be going forward with our business.

Nick Holmes - Nomura - Analyst

But looking at the ROE target, one easy way of meeting that is to return capital to shareholders. Is that something that you've considered?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

At this point in time we're focusing on really developing our business with a strong capital position and that is a priority now. It's about making sure that we develop a business with a strong capital position. As I said, we want to improve our risk-return profile and that is where our priority is right now.

Nick Holmes - Nomura - Analyst

Okay, thank you very much.

Operator

The next question comes from Mr. Chris Hitchings from KBW. Please go ahead. Your line is open.

Chris Hitchings - Keefe, Bruyette & Woods - Analyst

Good morning gentlemen. A couple of issues. Firstly just to clarify, you said quite specifically that you're paying EUR0.10 for the second half of 2011. Are you indicating that that is a 20% per annum indication?

Secondly, have you made any changes to the value of new business assumptions in these figures? I know you only produce the annual actuarial valuation in the first quarter.

Thirdly, can you comment a little bit about ROE target over the medium term? What medium term? Presumably you don't intend to get there in 2011 or probably even 2012, but is this 2013? And in particular are there any tying of management remuneration into achieving these targets?

And secondly --- sorry, thirdly, fourthly, can you explain why you're doing the Dutch State in two tranches because if you have enough money now, why not do it all now? Is it dependent on Transamerica Re? Is it dependent on what's going to happen in the second quarter? And what is the basis of what you've been -- or is it depending on what rating agencies say? Thank you.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Chris, on the EUR0.10 a share for dividend for the second half, if you annualize that you get to EUR0.20. What we want to do today is to share with you intention about the second six months of 2011. What we said also is that we would want to have a sustainable dividend growing with our business, growing with our cash flows, and that is what our objective is here.

Chris Hitchings - Keefe, Bruyette & Woods - Analyst

Thank you.



Alex Wynaendts - AEGON N.V. - Chairman and CEO

In terms of VNB, you're right, we'll provide you at the first quarter with the embedded value with all the assumptions.

Your return on equity, yes, we say medium-term. For me medium-term is two to three years. Keep in mind we have said that we're taking a number of actions, strategic actions which will affect underlying earnings in 2011. Keep in mind also that when we looked at our, when we calculate and publish ROE over 2010 that the way we calculate it is an average capital. So that means the start date is important and in the beginning of 2010 our equity clearly was lower. But also keep in mind that by repaying back the core capital securities to -- repurchasing core capital securities from the Government effectively will also have the impact on the ROE.

So remuneration, yes, our remuneration is linked to the financial targets. That has been the case already for a couple of years, as you know, and that will continue to be the case.

And finally, your question about why are you paying in two tranches. You will remember that our commitment is to repay it before the end of June 2011. You're also aware of the fact that we need the content of the Dutch regulator, the DNB, and this is the base on which we go forward, paying immediately half and paying the remaining by June 2011. And we've agreed it on this basis with your regulator, the DNB.

Chris Hitchings - Keefe, Bruyette & Woods - Analyst

Sorry, can I just come back to you on two things? On the VNB, I said have you made any changes in assumptions for the fourth quarter relative to the previous quarters.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

No. The answer is no. We always set our assumptions in the beginning of the year and these are the assumptions before that -- they were before.

Chris Hitchings - Keefe, Bruyette & Woods - Analyst

And just with the Dutch, with the regulator, was there ever an option of you raise the capital now so you can pay it all EUR2.25b now or what was the restriction on you not paying the EUR750m until June?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Chris, as I said, we engage with our regulator on a very regular basis so we have come to an agreement that we would do it on this basis. Keep in mind that we have agreed to pay back the full amount by June 2011 and what we're doing here is we're bringing forward half of it.

Chris Hitchings - Keefe, Bruyette & Woods - Analyst

Okay, fine. Sure. Thank you.

Operator

The next question comes from Hans Pluijgers from Cheuvreux. Please go ahead. Your line is open.

Hans Pluijgers - CA Cheuvreux - Analyst

Yes, good morning gentlemen. A few questions. First of all, going back on the 75% quarter one and the structure how you want to raise that, especially internal 6%, still I'm puzzled a little bit because, making some calculations, you are targeting a normalized free cash flow of EUR1b to EUR1.2b annually, of which about EUR600m will go to the holding, so EUR600m of that free on an annual basis. So that means about EUR1b to EUR1.2b over two years, which is -- and then deduct the dividend. Then you come to about EUR1b on a two-year basis, which is again about



5%. And then also TA Re which could also fetch up about 2% to 3% or even 4%. And then some additional capital-release programs you also still are running. I come clearly ahead of the 75%.

Are there any -- do you want to have some additional capital available of acquisitions because you just mentioned that you're mainly focused on organic growth, or you capital release programs have been ended? Could give a little bit give some more feeling on the 6% internal generation? I'm still a little bit puzzled about it that maybe you're looking for some additional amounts for acquisitions.

Secondly on the DNB, in this respect they support the repayment mid of this year you said based purely on the state of the financial markets. So must I reason that you don't need a divestment of TA Re, that they already agreed upon it without a TA Re divestment?

And thirdly, on the agreement with respect to the core capital --- or the excess capital at holding level, the 1.5 times, that's I assume a number, a percentage or a ratio you want to have or they agreed for the longer term, also if the costs on the holding level go up you still have to apply the 1.5 times instead of the EUR900m.

And the last, a detailed question on Spain, the acquisition. Could you give some feeling on what that has as an impact on the capital? Is there some substantial amount or relatively low?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

On the 75% buffer, as you were saying, 6% or at least 6% as you say will be generated from internal resources, of which I've said the majority, the vast majority is retained earnings. When we say that we want to target 75%, you will understand that that means we need a little buffer above the 75% because two years ago and uncertainties in the market you don't want to be spot on the 75%. But we don't have a very large buffer. And again I can confirm that we are focusing on organic growth and that's how we want to grow our business. If you want to get more details about how we get to these numbers then I would suggest that we follow-up directly with you through our investor relations.

Hans Pluijgers - CA Chevreux - Analyst

Okay.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

For DNB the approval which we have is a formal approval which we have received to repay back half right now, immediately after the equity issue, and we have agreed with them that we would repay the remaining in June 2011 and that we will do that from internal resources, with the potential sale or not sales of Transamerica Re.

Your question about the 1.5 times holdings cost, yes, it is 1.5 times holding cost and we assume this is going to be in place for some time. But there's no reason to believe that the holdings cost should go up significantly.

The transaction in Spain, we are clearly happy to be able to expand our business in Spain. We believe we have a very strong franchise in working with these Cajas. This is a specific situation where the Caja which we've been working for nearly five years now, Caja Navarra, as you know, is involved in this merger with others. And what happens here is that we're expanding our distribution to a large merged entity and the amounts involved are very limited.

Hans Pluijgers - CA Chevreux - Analyst

One follow-up on the second tranche of repayment. It's good -- I understand correctly that you don't need TA Re, so it is not a precondition that you should sell TA Re, that's already discussed with DNB?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

No. We discussed with DNB in general how we want to pay back our capital. We showed them our plans and we showed them plans with different options. It's on that basis that we discussed and we have an agreement with DNB and I don't want to be more specific than that about our discussions with DNB at this moment in time.

Hans Pluijgers - CA Cheuvreux - Analyst

Okay, thank you.

Operator

The next question comes from Benoit Petrarque from Kepler. Please go ahead sir. Your line is open.

Benoit Petrarque - Kepler Capital Markets - Analyst

Yes, good morning gentlemen. Yes, on the 75%, the 6%, what is your assumption there in terms of dividends until 2012?

And just to clarify, it includes your net profit and the impact of TA Re on the book value, just to clarify that.

And then on the ROE target, 10% to 12%, what is your realized gains assumption there? This year you have booked quite large gains. In the lower interest-rate environment and decreasing IFRS reserve, what can we assume there for the run rate on '11 and '12?

And lastly, how much capital can we expect to be upstreamed to the holding in 2011 from your operating units? Thanks.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Your first question, when we've mentioned this 6% which will be coming from internal resources, yes, we have assumed the dividend, which I shared with you, which is our intention to pay EUR0.10 over the second half of 2011. And I've also shared with you that we would like to have the dividend and will implement a dividend policy whereby dividends will grow on a sustainable basis. And so that is clearly included in our assumption.

In terms of ROE, the ROE which we're talking here about is ROE based on underlying earnings which means that it does not include any gains or losses from our bond portfolio.

Benoit Petrarque - Kepler Capital Markets - Analyst

Thanks.

Operator

The next question comes from Albert Ploegh from ING. Please go ahead your line is open.

Albert Ploegh - ING - Analyst

Yes, good morning gentlemen. Two questions from my side. Unfortunately I want to go back once more to the core capital ratio slide and especially related to Transamerica Reinsurance. We're all probably aware that you will sell it below book value so that will set you back some more in reaching the target. So how did you include that in this projection? I assume that's part of the divestments and in this time a book loss? So should I also read in this statement that you also will do additional divestments than on what has already been announced there so far?

And the second question is a bit more operationally on the US pension business and variable annuity business. US pensions you saw again a very strong quarterly inflow. Can you update us a bit about the pipeline and about the pricings you made there?



And also on the variable annuities as well can you update us a bit about the pricing environment there as well? Thank you.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Your first question was what are we taking into account when we are calculating our return on equity, effectively that was your first question?

Albert Ploegh - ING - Analyst

No sorry. On the core capital ratio, what do you include there in terms of book losses for the divestment of Transamerica Re?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

On our core capital we haven't included anything in relation to transaction that we haven't closed that so that's I think the best way of answering this question. We will share with you -- when and if we do a transaction we will share with you the details at that point in time.

Albert Ploegh - ING - Analyst

So you do agree that it's likely to be sold below book so that will be more challenging to reach the 75% then.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

It depends on many factors, Albert. At this stage I cannot comment more on what the treatment, accounting treatment would be. First of all, we need to agree a transaction. As I said to you it's a complex transaction and the accounting treatment will also be derived from that, and I promise we will share that with you as soon we have it to share.

Albert Ploegh - ING - Analyst

Okay, I understand.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Okay. And on the US pensions, yes, this has been a business which we have been focusing on developing. I think we can be proud of this franchise. It's a franchise which has built a very strong reputation in a number of specific niches, as you know the 401k but the 403b in the hospital area and the health areas. And what we see here is that all the efforts which we've put in place to have a really state-of-art administration system and the back-office system is now paying off. And that is why we're seeing now a growth in that business which is clearly twice the growth of the market and we expect to continue to see growth coming from that business. Quarter-after-quarter we're seeing improved sales and improved earnings coming from this business.

In terms of variable annuities I think your question was about pricing environment. We do see a return to more aggressive pricing after the crisis. I think we shared that with you the other time. On the other side we have been very clear that we want to price our variable annuities on the basis that we are comfortable. We've been very much focused on working on distribution and we've been developing also a lot more in regional distribution where it's more about, not only about pricing but it's about a better balance between pricing, the right products and the servicing, and the relationships we have with the distribution. And that is what you see now paying off.

Looking at Darryl, if there's anything you think that we should be adding here Darryl?

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

No. I think you covered it well.



Alex Wynaendts - AEGON N.V. - Chairman and CEO

Thank you.

Albert Ploegh - ING - Analyst

Again, if I may, one follow-up on Transamerica Re. You mentioned that you're in discussion I think with one party currently. Should I read into that statement that this one's probably interested in all the books and the other ones are more interested in only specific parts of the portfolio?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Again Albert, I'm sorry. I can't say more than what I've said. We're in discussion with a party and I said the process is going as we were expecting. It is not a simple transaction and I promise you we'll let you know as soon as we can.

Albert Ploegh - ING - Analyst

Okay.

Operator

The next question comes from Marc Thiele from UBS. Please go ahead your line is open.

Marc Thiele - UBS - Analyst

Good morning. I have two questions please. My first question is, on slide six you give us the slip in terms of excess capital between the holding and operating units, can you provide us a split for both these numbers into the cash component and the intangible element?

My second question is then related to Transamerica Re. I think you mentioned a book value a EUR1.6b for 2009. What's the book value number for 2010?

And is the normalized ROE still in the 5% ballpark?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

On the first question, Marc, I think it will be best if you connect directly with IR and see what information, explicit additional information they can be providing you.

Marc Thiele - UBS - Analyst

Okay.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

On TA Re, the numbers you're referring to in terms of returns I think are in the ballpark.

Marc Thiele - UBS - Analyst

And the book value is unchanged or --- still in the EUR1.6b range?



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Darryl Button - AEGON Americas, CFO

Yes, not changed materially.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Not changed materially, but the returns you were referring are in the ballpark, yes. So the two, yes and yes.

Marc Thiele - UBS - Analyst

Alright, thank you.

Operator

The next question comes from Francois Boissin, Exane BNP Paribas. Please go ahead your line is open.

Francois Boissin - Exane BNP Paribas - Analyst

Good morning gentlemen. Just two questions on my side. The first one is on your return on equity. What is the capital base you were talking about as the denominator? Is it the EUR17.2b you report at the end of 2010 or is this the EUR15b which excludes preferred shares?

And the second question is with regards to Transamerica Reinsurance. You raised EUR1b equity. Do you feel you need to sell this division or would you consider keeping it and running it in runoff in case you do not get a favorable price?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Your first question, the return on equity is based on equity which excludes the preference shares.

Francois Boissin - Exane BNP Paribas - Analyst

So we're talking about the EUR15b number then?

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Yes.

Francois Boissin - Exane BNP Paribas - Analyst

Okay.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Sorry, your second question was if we needed the EUR1b equity raising?

Francois Boissin - Exane BNP Paribas - Analyst

No. Basically the question is do you feel that you need to sell Transamerica Reinsurance now that you've raised capital? Would you -- are you sell her at any price or would you consider running off the business if you do not get a sufficient offer on that?



Alex Wynaendts - AEGON N.V. - Chairman and CEO

Yes. I think we've been showing you here that by doing an equity raising here of EUR1b, which you see very clearly on this slide, slide seven, is that we can effectively compensate for 4% out of the 10%, which is a result of the amount of core capital which effectively we're losing with repurchasing the core capital securities from the Dutch State. We're showing you that we have internal resources of 6%, of which I said that a very significant part is effectively from retained earnings. So we have clearly flexibility here.

Francois Boissin - Exane BNP Paribas - Analyst

Okay, thank you.

Operator

The next question comes from Duncan Russell from JP Morgan. Please go ahead your line is open.

Duncan Russell - JP Morgan - Analyst

Good morning. Thanks very much. First question, on the fixed annuities the running yields dropped quite substantially in the fourth quarter. I you did an accounting thing I think in the third quarter. But the drop in the fourth quarter, could you just comment on that and what your new money yield is on the fixed annuity book please?

And then secondly then, in your asset portfolio you still have quite substantial growth in unrealized losses on the banking holdings and also on the neg am book. Don't you think you should be writing those things down or what gives you confidence that those things will actually come back to par?

Third question then is on the dividend. I notice you're giving an optional stock or cash. Just wondering what the rationale for the stock component is please? Thanks.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

I would like to give the first question to you Darryl. You're right, the yield from our fixed annuity has come down. It's a combination of a number of factors. But Darryl, can you please provide a bit more color?

Darryl Button - AEGON Americas, CFO

Yes. Duncan it's Darryl. You're right. There's really two issues going on. One of them started towards the back half of the third quarter. We did have some yield that disappeared out of the portfolio and went into our runoff businesses as we collapse some of the transfer assets that we had back in the heart of the financial crisis. So that caused a drop that started in Q3 and got a little worse in Q4. But we've also taken risk out of the book as well. We lightened up on some of the high yield investments in the fixed annuity book in the fourth quarter and we're sitting on probably a little excess liquidity in that book right now and that had a yield compression effect.

Duncan Russell - JP Morgan - Analyst

Is it a level now Darryl which will stay where it is or will it keep dropping?

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



I think the earnings level where they are right now is fairly indicative in the short-term. Obviously the book is running down. I mentioned before on the run out of the flows. So the earnings will continue to trend down, but I think the yield compression that we've seen in the short-term, I think the earnings are at a decent level for the short-term.

Duncan Russell - JP Morgan - Analyst

Okay, thanks.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Duncan, your question on the asset portfolio, as you know, it's not a question of our choice. We have very strict and clear rules about what you impair and what you don't impair and we follow these rules.

In terms of the dividend, the amount of stock, the choice between stock and cash, as you know we have a number of investors here in Holland but also in other parts of Europe who just like to have a stock part of it. So we want to make sure we accommodate all our investors and that's why offer them either stock or cash, or a combination if they want to.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

I need to ask you for one more question then unfortunately we'll have to move on.

Operator

The last question for today comes from Robin Buckley from Deutsche Bank. Please go ahead.

Robin Buckley - Deutsche Bank - Analyst

Yes, good morning. Could I just return to the holding company capital please? Typically I guess I think of about EUR600m being upstreamed in a year, so EUR300m in the half year. I'm just wondering if you could give any further comment on what we can expect to be upstreamed in the first half of 2011 given you were talking earlier on about the increased fungibility that we're seeing in capital?

Then just secondly, just returning to Transamerica Re, were you to sell that for a significant amount of money following the capital raising that we've got, is there anything in particular that you would be earmarking that for or would it just be increased flexibility? Thank you.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Yes. For the holding company, yes, we've given you the numbers, as you said.

In terms of fungibility, keep in mind that in the year 2010 we have upstreamed to the holding around EUR1.2b from the operating unit. So we are talking about the normalized free cash flows of EUR600m to EUR700m which are coming to the holding, but of course in this period 2010 we have been upstreaming more because we've able to [restart] the capital from our businesses in The Netherlands and in other parts in Europe, but of course also in the US. And we'll be looking at how we can upstream the capital because we want to repay, as I said, the remaining of the EUR2.25b from internal resources.

On TA Re, again, we're saying clearly that we are in discussions with a party and we will hopefully be able to announce something with you at the time that we have more. But it is too early now to say what we're doing to do with the proceeds. And as I said all along, we want a strong capital position, we want strong balance sheet ratios, and that is we think important in the environment in which we operate. And having some flexibility I think is not an overdue luxury right now.

Robin Buckley - Deutsche Bank - Analyst



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Okay, thank you very much.

Alex Wynaendts - AEGON N.V. - Chairman and CEO

Thank you very much. Thank you for your interest in AEGON and thank you for your questions. See you. Bye-bye.

Operator

This concludes the AEGON fourth quarter 2010 results. Thank you for participating. You may now disconnect.

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