

**Thomson StreetEvents<sup>SM</sup>**



## Conference Call Transcript

**AEGON - Q2 2010 AEGON N.V. Earnings Conference Call**

**Event Date/Time: Aug 12, 2010 / 07:00AM GMT**



Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

## CORPORATE PARTICIPANTS

**Alex Wynaendts**  
*AEGON N.V. - CEO*

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

## CONFERENCE CALL PARTICIPANTS

**Farooq Hanif**  
*Morgan Stanley - Analyst*

**Nick Holmes**  
*Nomura - Analyst*

**Jan Willem Weidema**  
*ABN Amro - Analyst*

**Albert Ploegh**  
*ING - Analyst*

**Chris Hitchings**  
*KBW - Analyst*

**Robin Buckley**  
*Deutsche Bank - Analyst*

**Farquhar Murray**  
*Autonomous Research - Analyst*

**Marc Thiele**  
*UBS - Analyst*

**Francois Boissin**  
*Exane BNP Paribas - Analyst*

## PRESENTATION

---

### Operator

Welcome to the AEGON second-quarter 2010 results for analysts and investors conference call on 12 August 2010. Throughout today's recorded presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions.

(Operator Instructions).

I'll now hand the conference over to Mr. Alex Wynaendts. Please go ahead, sir.

---

### Alex Wynaendts - AEGON N.V. - CEO

Good morning and thank you for joining us for this discussion of AEGON's second-quarter results. Joining me today are Jan Nooitgedagt, CFO; Darryl Button, the CFO of our US operations; and Michiel van Katwijk, Executive Vice President.

Before getting to the presentation, let me just remind you to take a moment to review our disclaimer on forward-looking statements, which is at the end of the presentation.

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

Before reviewing AEGON's second-quarter results, let me answer the question I know that you're all waiting to ask, namely, what is the status with the European Commission? The answer is that we expect to receive a final decision soon and we will update you, of course, at the earliest opportunity.

So now, let me share with you what we believe are the highlights of the quarter. AEGON, again, boasted a strong set of results. Underlying earnings further improved, supported by the execution of our strategy and improved financial markets. New life sales increased in almost all our markets and gross deposits also improved strongly, a clear indication of our strong franchise.

Impairments on our US fixed income portfolio were 10 basis points this quarter and are now approaching our average long-term assumptions. And AEGON's excess capital position above Standard & Poor's AA capital requirements remained strong, though decreased to EUR3b, mainly as a result of higher capital requirements as Standard & Poor's revised their risk factors.

And then, of course, we remain focused on implementing our strategy and delivering on the key priorities we have identified and discussed with you on a number of occasions.

Here, on slide three, we provide you an overview of the principal indicators of our continued progress. As you can see on this slide, there has been a clear and consistent, positive trend in the four key metrics; underlying earnings, sales, gross deposits and revenue-generating investments.

Slide four. In June, you will remember that I provided an update on our progress in implementing our strategic priorities, which includes reallocating our capital to higher growth segments, increasing returns within our existing businesses, and making much better use of our resources and expertise across our organization.

The main initiatives we announced relate to the restructuring of our UK business in order to improve returns and to review strategic options for Transamerica Reinsurance, including finding a suitable buyer. We have made considerable progress in recent months in aligning our entire organization around what we define internally as the key must-win battles. And they have to do with optimizing our portfolio, ensuring customer loyalty, delivering operational excellence and empowering our employees.

We have launched a global talent management program aimed at encouraging and developing talent among employees. Toward this end, we've also recently appointed a global Head of Human Resources. In addition, we've taken steps to bring target compensation for senior management further in line with the Company's overall strategic objectives.

Slide five, returning to the positive sales development in the quarter. Sales increased in all our key businesses. The 22% increase in new life sales was mainly driven by higher pension sales in the UK and retail sales in the Americas.

Deposits were up 16%, mainly as a result of higher pension deposit in the Americas, third party asset management and retail mutual fund inflows. As you are aware, we've been managing fixed annuity sales lower, given the current interest rate environment and the fact that we want to deemphasize spread-based products and emphasize fee-based products.

The decline in VNB was mainly due to a decrease in immediate annuity sales in the United Kingdom following earlier repricing and lower sales of fixed annuities in the US. The lower sales level in Spain also contributed to the lower VNB. I should point out here that 22% of VNB came from our new markets, an indication that we're making good progress in our objective to achieve a better geographic balance.

Here on slide six, we provide you recent developments in underlying earnings which, in the second quarter, increased 26%. Clearly, the strengthening of the dollar and the pound against the euro had a positive effect in total underlying earnings.

The 47% increase in underlying earnings in the Americas were the result of the growth of the business, lower expenses, higher investment income from the redeployment of cash and the fact that in a comparable period last year earnings included several exceptional charges. In addition, we continue to see good mortality and claim experience in the United States.

Earnings in the Netherlands were strong, during the quarter, at EUR97m. However, a decrease compared to the second quarter last year where we had a one-time release of provisions.

In the UK, earnings increased slightly to EUR18m as higher profits from annuities were partly offset by higher project-related expenses.

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

And, finally, in our new markets, the inclusion of our asset management activities were more than offset by lower earnings from Central and Eastern Europe as a result of the severe storms and floods in Hungary, as well as our continued investments in our new businesses in Asia and Turkey.

Slide seven. One of our key priorities has, and continues to be, improving returns of our existing businesses. Last year, you will remember that we introduced a broad-based expense management initiative that resulted in exceeding our EUR150m cost-reduction target by EUR100m for a total of EUR250m in cost reductions.

Operating expenses declined 2% in the second quarter at constant currency. Expenses in the Americas declined by 10% on a comparable basis while, in the Netherlands, expenses were flat and, in the UK, increased, as previously mentioned. Obviously, new markets increased mainly as a result of inclusion of AEGON Asset Management. We are continuing to identify additional areas where we can reduce cost and increase efficiencies while we continue to invest in new business, and we will keep you updated on our progress.

Slide eight, turning now to the sector supporting the strong net income. The single biggest fair value item is the gain of EUR196m on the macro hedge in the US. As a result of the intended increase in the use of equity macro hedges, we set the short-term equity market return assumption of variable life and variable annuity products in the Americas at 9% for the second quarter and this decision resulted in a charge of EUR144m. We realized gains of EUR148m on investments as a result of gains on bond sales. And a particular highlight in this quarter is the lower level of impairments, which I'll come back to in a moment.

In addition, other charges includes a one-time provision of EUR105m for the settlement of a dispute related to bank-owned life insurance policy in the US. This more than offset the EUR33m book gain which resulted from the sale of the Dutch funeral insurance business.

And, finally, earnings from our business that had been put in runoff in the US were better than expected as a result of higher portfolio yields.

Slide nine. I have already mentioned the lower impairments during the quarter, a trend that we have seen over the past several quarters and which we are obviously pleased about. The US credit impairments at 10 basis points, now at their lowest level in two years, as I indicated, are approaching our long-term assumption of 30 basis points to 35 basis points on our fixed income portfolio in the US.

The EUR77m of impairments during the second quarter relate primarily to US housing related assets. Expected impairments, particularly in our real estate related sectors, will remain at somewhat elevated levels.

Turning to slide 10, AEGON's excess capital position remains strong at EUR3b above S&P's AA capital adequacy requirements. The decline, as I mentioned earlier, was due to increased capital requirements for asset-related risk.

S&P has revised their rating factors, which significantly increased the charge to apply for investment portfolios, in particular for corporate bonds and commercial mortgage-backed securities. As a result, capital requirements in the Americas increased by \$900m in the second quarter and by \$1.4b for the first half of the year. Of the EUR3b in excess capital, EUR1.9b is held within our operating units and the remainder, EUR1.1b is held at the holding company.

Slide 11. Our core capital position, excluding the revaluation reserve, amount to EUR19b, which is equivalent to 74% of our total capital base and above our target threshold of 70%. It is our aim to increase the threshold to 75% over time.

We have decided not to declare an interim dividend this year, although our capital position remains strong. Our aim is to maintain and build a sizeable cash buffer in order fulfill our priority of repaying the Dutch State as soon as it is responsible and feasible to do so.

Turning to slide 12, we see shareholders' equity, which improved significantly to EUR17.2b or EUR8.83 per common share, and this is mainly as a result of three sectors. First the dollar and the pound strengthened considerably against the euro.

Second, improvements in credit market and, of course, the decline in risk-free interest rates have reversed the unrealized losses in our investment portfolio and, consequently, the revaluation reserves has turned positive for the first time in almost three years.

And third, of course, the strong improvement in net income also adds to this total shareholders' equity.

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

Slide 13. As we shared with you last quarter, we continue to have limited exposure to peripheral European sovereigns and that exposure was reduced further during the quarter. We have lowered our exposure to Spain by around EUR550m and our exposure to the peripheral countries of Portugal, Greece, Ireland, Italy and Spain now totals EUR1.5b and this represents just 1% of our general accounts.

Another concern, which I realize many of you are focused on, is the low interest rate environment. As we have made clear in the past, the persistent low interest rate environment is not good for our sector. More specifically for AEGON, we have already taken a number of actions to mitigate the effect of lower interest rates, which include increased interest rate hedging. In the Netherlands, we have fully hedged the interest rate risk embedded in the guarantees.

And, in the US, we are managing interest rate risk in several ways. First, in our deposit business, we have strict asset liability matching. Second, in our variable annuity business, we have been hedging the vast majority of our interest rate exposure on new sales since 2003 but, obviously, for new business and previously unhedged business, the cost of hedging increases in the current low interest rate environment. And, third, in our life business, the effect of prolonged low interest rates will emerge over time but has been partly reduced by hedging of certain long-tail blocks of business.

And in our other markets, the impact of low interest rate is limited as most of our businesses is euro-linked.

Slide 14. Before taking your questions, I'd like to reiterate that this was a strong quarter for AEGON, with significant increases in earnings and sales. We continue to make good progress in implementing our strategic priorities. Going forward, we will maintain our focus on better leveraging our broad resources, pursuing further operational improvements and putting AEGON's proven expertise to work for our customers in all our markets.

I am now pleased to take your questions.

## QUESTION AND ANSWER

---

### Operator

Thank you, sir. (Operator Instructions). Our first question comes from Farooq Hanif from Morgan Stanley. Please go ahead with your question.

---

### Farooq Hanif - Morgan Stanley - Analyst

Morning, everyone. Three questions actually, if you don't mind. Firstly, can you just tell us or give us some sort of feeling about how confident you feel that you will find some sort of solution for life reinsurance right now?

Second is your US result in dollar terms, it's continued to be very strong and I notice that in areas like life and protection, earnings going up, strong spreads in fixed annuities as well in the pensions and asset management business, how confident do you feel that some of that profitability on revenue-generating assets will be maintained at current levels? And are there any one-offs that we should be aware of there in the US?

And the last question is, you talked about the redeployment of cash, which is helping also to improve your spreads, can you just talk about where you are in the phase of that? Have you just started? And what you're doing. Thank you.

---

### Alex Wynaendts - AEGON N.V. - CEO

Many thanks. Yes, on our Life Reinsurance Transamerica Re, we've announced in June that we would start a process. I can tell you we have started a process, we're in the middle of a process. At this stage, it's way too early to speculate about how successful it will be. All I can tell you, and I'm pleased about that, is we have good interest -- interest from strategic buyers. We've also had interest from -- we have interest from financial buyers but I'm sure we'll inform you as soon as we have something we can share with you.

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

In terms of our US business, yes, you're right, this was a strong quarter. Let me give you a couple of highlights and then pass also it on to Darryl to see if he can add something. But this being a strong quarter, life and protection obviously benefited from continued good mortality and claim experience.

You're mentioning, of course, a redeployment of cash in our business that has also supported the growth in earnings. And I think in pensions what we're seeing here is that this pension business has been, as you know, one of our really best performing businesses in the US; we've been growing way above the market growth. And you are seeing that that is building up and I think that's what we're seeing in our pension business.

Darryl, is there anything you'd like to add?

---

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

Yes. Hi, Farooq, it's Darryl.

---

**Farooq Hanif - Morgan Stanley - Analyst**

Hi.

---

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

Yes, it was a strong quarter in the US absolutely. In fact you hit on two of the stronger points, the life and protection and the fixed annuity results. We did have a \$10m positive DAC on the life business so I would not consider that to be recurring. There's also -- claims and mortality experience continues to be favorable and bettered our expected by another \$5m or so, so I think the L&P earnings were probably \$15m stronger than what I would consider to be run rate.

On the fixed annuity side, you notice that the spreads did improve quite a bit in the quarter; I think we increased to about 205 basis points. Also that some of the investment income does tend to be a little bit volatile, period to period, and it was a strong quarter for investment income on the fixed annuity book. There would be another -- I expect the spreads to actually settle back down a little bit into the 180, 190 basis points range so I think the fixed annuity earnings were also strong by -- in the neighborhood of \$10m to \$15m. Other than that, it was a -- outside it was a fairly good quarter across the board.

You asked also about the redeployment of cash. Going back -- it depends on what period you're looking over, when you go back to the second quarter of '09, I'll just remind you we did have a lot of cash in-house from the fixed annuity sales that we sold through the heart of the crisis. We did do a lot of transferring of assets later in '09 between our runoff business and our fixed annuity and surplus portfolios, so that redeployment of cash into underlying earnings is a significant contributor on the increase on a year-over-year basis.

Outside of that, we have been putting cash to work in the market primarily in high grade NAIC-1 category investments and we continue to redeploy excess cash every quarter.

---

**Farooq Hanif - Morgan Stanley - Analyst**

I guess the point of my question was more that do you feel like you've got quite a long way still to go there?

---

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

No, I don't think so. I think we're down to basically just putting incremental cash to work. And, as you know, we're not really selling a lot of -- we're de-emphasizing our spread-based sales, we're not selling a lot of fixed annuities so that product has gone into a negative cash flow status. We're still positive cash flow on the rest of our businesses so we're just putting incremental cash to work, going forward. I don't think there's anything material to -- outside of just normal course of business there, going forward.

---

**Farooq Hanif - Morgan Stanley - Analyst**

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

Okay, that's very clear. Thank you.

---

**Operator**

Thank you. Our next question comes from Nick Holmes from Nomura. Please go ahead with your question.

---

**Nick Holmes - Nomura - Analyst**

Yes, hello there. I had a couple of questions. The first one is about the S&P recalibration, which -- my observation, here, would be that it seems somewhat disappointing, especially since your impairments are reducing at their most rapid rate yet. It seems a bit ironic that S&P have chosen this timing. And my question is, really, can you tell us what your views of this are and whether you think that EUR3b today is still EUR3.8b? I imagine you would think that. And whether you think that, therefore, your confidence in your surplus capital remains unchanged in spite of what S&P are saying.

My second question is, you're continuing to derisk your business and you saved EUR250m of capital in Q2; my question is how much more, do you think, will be achievable, going forward?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes, on the S&P calibration, as you know, they go through their models, I think it's once every three years, and it's been now that they've reviewed their models, which, by the way, do not only apply to AEGON, they apply to the entire sector. And it's about the capital charges which they apply to the corporate bonds, so high quality corporate bonds as well as the CMBS securities.

Well, the way we look at it is, we've always said that we wanted and we intended to maintain a high buffer above the S&P capital and we were expecting that S&P would make changes to the asset charges and we didn't know to what extent and how big these changes would be. I think what's important, here, for us is that we are comfortable with the current level of S&P capital which we're holding in a buffer in -- as a buffer in the US; hence, consequent also with the current amount of capital which we're holding as a buffer for the Group as a whole.

What I can share here to you that this does not affect the capability -- our capability of repaying the Dutch State because what is relevant for us, not so much the amount of capital, and we've discussed it many times, what's relevant for us is the amount of capital which we effectively can upstream to the holding and from the holding then use for repayment. And what I can say, here, is that the amount of capital which we can upstream to holding has not been affected by these changes.

---

**Nick Holmes - Nomura - Analyst**

So that seems a clear statement that, yes, you're not perturbed by what S&P is doing, that's correct?

---

**Alex Wynaendts - AEGON N.V. - CEO**

I'm saying it's not affecting our capability of repaying back.

---

**Nick Holmes - Nomura - Analyst**

Yes.

---

**Alex Wynaendts - AEGON N.V. - CEO**

But your second question was about derisking, Nick, the EUR250m, you're making the right observation. We have taken EUR5b of capital out in the last two years and it's obvious that you cannot expect this to continue at the same rate, so we see actually a clear slowing down of the rate of derisking and effectively releasing of capital out of our business. It's about efficiencies, it's not only about derisking, it's about efficiency and

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

derisking. We continue our efforts, of course, to be as efficient as we can with our capital, to design the products in such a way that they are most efficient on capital, but I would not expect significant further release of capital for my existing businesses through efficiency improvements or further derisking.

---

**Nick Holmes - Nomura - Analyst**

But that EUR250m of capital preservation is still quite a big number, isn't it, in Q2? I mean is that a number that you think is going to slow down from here or do you think there are further opportunities? I mean you're not writing fixed annuities; there must be capital releases coming from that part of the business, for example.

---

**Alex Wynaendts - AEGON N.V. - CEO**

Well, the -- as you said, the fact that we think that the environment is not attractive for fixed annuities has more to do with capital which we're using for new business. And this does not affect derisking.

Derisking are measures which we're taking in our business about efficiency, about derisking, and I think we'll see a number which is going to trend down and not a number which will be a regular number for every quarter. It's certain actions we can take at a certain point in time, so you'll see a trending down over time.

---

**Nick Holmes - Nomura - Analyst**

Okay, thank you very much.

---

**Alex Wynaendts - AEGON N.V. - CEO**

Thank you.

---

**Operator**

Thank you. Our next question comes from Jan Willem Weidema from ABN Amro. Please go ahead with your question.

---

**Jan Willem Weidema - ABN Amro - Analyst**

Good morning, Willem Weidema, a few questions. The S&P required capital tends to trend up, do you expect this to continue? Also, because you said the -- this quarter's extra charges were somewhat expected.

Next to that, you changed your equity market assumptions and took a charge of EUR144m. If you hadn't done this what would have happened with your underlying earnings before tax? And can it also be an explanation for part of the beat on the US underlying earnings?

And thirdly, could you mention something about your eagerness to do M&A. You stress again that you want to be a leader in all markets, I guess, mainly Central and Eastern Europe. Can you give us an update on that?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Okay. Well, thanks. Yes, the first question as I said earlier, S&P changes its models every three years. They just changed it so I'm not expecting any changes in the near future.

Second question was about the -- I think the EUR144m. What we said is that we set the assumptions for equity markets for variable life and variable annuities at 9%. Otherwise we would have left -- we would have had to put them at 11% if we had followed the mechanical calculation. And that difference represents EUR144m which would have been in the fair value items. So if we had not done that, we would have higher fair value items with EUR144m.



Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

In terms of M&A, I think we've been pretty consistent in saying we focus on organic growth. We need to get a, well, a conclusion of our discussion with the European Commission before we can embark on any M&A and, of course, we need to repay the Dutch State first.

---

**Jan Willem Weidema - ABN Amro - Analyst**

Okay, thank you.

---

**Operator**

Thank you. Our next question comes from Albert Ploegh from ING. Please go ahead with your question.

---

**Albert Ploegh - ING - Analyst**

Yes, good morning. Three questions basically. First one, on the impairment line which came in, I think, pretty low at EUR77m. Are there any releases in here as well? So a bit for also modeling for the second half.

And the second question is the level of capital gains in this quarter was a bit high, basically due to ALM decisions. Have they all now been carried out or should we expect some further changes in the investment portfolio impacting this line maybe, also in Q3?

And also, coming back on the short term equity market assumption change, I would guess that it has also reduced somewhat your P&L volatility from this in the fair value line as well. Can you maybe give some sensitivities on this in relation to the macro hedge? Thank you.

---

**Alex Wynaendts - AEGON N.V. - CEO**

Thank you, Albert. Yes, the impairments were EUR77m. This has been, as you've noted, a continuing downwards trend approaching our long term assumption, 30, 35 basis points, and the lowest in more than two years. And that's clearly something we're very pleased with.

It does include some releases, but around EUR30m of recovery -- sorry, recoveries, around EUR30m of recoveries. So you see the largest -- it's not all driven by recoveries.

In terms of capital gains for the quarter, we run our portfolio -- we have to adjust our asset liability management. Effectively, a large part of this amount is coming from the sale of bonds, which we are holding at the holding. And that means that the gains which were realized in the units, in particular, in the US and Netherlands were really very limited.

In terms of short term equity market assumption at 9%, yes, as we said earlier we've announced our intention to continue increasing the use of macro hedging for our -- the in-force GMIB book, the old book of business. And as a consequence, we felt it was prudent to cap that equity assumption at 9%. And that will indeed lead to less volatility, which is consistent with the fact that we put macro hedging in place.

---

**Albert Ploegh - ING - Analyst**

Okay, very clear. Thank you.

---

**Operator**

Thank you. Our next question comes from Chris Hitchings from KBW. Please go ahead with your question.

---

**Chris Hitchings - KBW - Analyst**

Hi. Thanks very much. Can I just go back to this S&P capital requirement? My notes may be wrong but I have a note from the first quarter that there was an increase in capital requirement under the S&P model and I thought that referred to the changes S&P had made. So I was slightly

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

surprised to see there were some more. Did I get that wrong or did you take that in two phases or were you referring to something else at first quarter?

Secondly, again, on the sales in the UK, can you give us some feel of what impact the change in pricing on immediate annuities has had on that sales and where you think the run rate of sales in the UK is now? Thank you.

---

**Alex Wynaendts - AEGON N.V. - CEO**

Chris, on the capital requirements in the first quarter, we knew that S&P was getting pretty close in announcing their changes. So we knew that at that point in time. And that was the -- but we didn't know what the amount was going to be and we had no sense and there was the reason that already in the first quarter, as a matter of prudence, we already took an amount of around \$500m in the first quarter for these S&P issues.

And that's why we're saying that we've taken \$900m in the second quarter, but I also mentioned that in total the charge was \$1.4b. It's the \$900m in the second quarter, the \$500m in the first quarter. But we didn't know what the full amount was and if we had known, well, obviously we would have taken the full amount and disclosed that, but we knew the changes were coming and we also knew which directions they were going.

---

**Chris Hitchings - KBW - Analyst**

I see. So you actually -- it's the same change which you took in two phases?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes, it's the one change we took in two phases. While we knew directionally which way it was going but we did not know what the amount was, we felt it was prudent at that point in time to take this amount.

---

**Chris Hitchings - KBW - Analyst**

That explains it. Thank you. And in the UK?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Well, in the UK, yes, the annuities have been impacted by the repricing. We've seen a second quarter which was -- you can see there was around GBP12m of -- in balance in this APE so you really have to multiply that by 10, which is around GPE120m of single premium because they're mostly single premium.

And I think that this is probably not an unreasonable run rate. We clearly see that the overall -- our run rate on the longer term in annuities is clearly lower than what it is last year, and I think the GBP120 is not an unreasonable run rate.

---

**Chris Hitchings - KBW - Analyst**

Okay. So the second quarter, there are no exceptional elements in the second quarter in the UK?

---

**Alex Wynaendts - AEGON N.V. - CEO**

No, no. What we see in general is a strong environment for particular pension sales. So we have been able to benefit from that because of our strong position and strong franchise in the pension market.

---

**Chris Hitchings - KBW - Analyst**

Thanks very much.

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

---

**Operator**

Thank you. Our next question comes from Robin Buckley from Deutsche Bank. Please go ahead with your question.

---

**Robin Buckley - Deutsche Bank - Analyst**

Yes, just one question please. Could you perhaps just talk around what the expectations are in terms of being able to upstream capital from the operating companies into the holding companies, and any restrictions that are on that? And how those have changed over recent quarters and your expectations for the future? Thank you.

---

**Alex Wynaendts - AEGON N.V. - CEO**

What I said is that, of course, for us, what is important is our capability of upstreaming the excess capital and the earnings which are being generated in the operating units to the holding. What I said earlier in the call is that the changes in S&P is not affecting our capability and certainly is not affecting also the planned distribution from the operating units to the holding.

What I see in general is that, of course, regulators remain cautious, but I also see now that there is an understanding that we have to go back to a more normal environment where the holding has to receive operating dividends from the operating units. And that's, I would say, clearly an improvement over what it was a year ago.

---

**Unidentified Company Representative**

Yes, Robin, if I might add, compared to last year, last year we effectively took our dividends from our Central and Eastern European businesses. Looking at this year, not just the CEE countries but also the Dutch operations, the US operations will be able to pay dividends. So we see quite a bit of fungibility of capital returning.

---

**Robin Buckley - Deutsche Bank - Analyst**

Okay, thank you. And I mean is it possible to get a sense of the speed with which that comes up to the holding company, out of the operating companies?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Well, you go -- we go through a process with our businesses. We have a plan - it's a multi-year plan - to see how they can upstream dividends. We also have to take into account, of course, that we want to maintain a buffer and then you need to get an approval from the regulators.

But as I was saying earlier, we have now more responsive regulators, understanding that these dividends which are being generated in our businesses, with the profits we have been generating, with the impairments going down, is now clearly becoming an issue, absolutely.

---

**Robin Buckley - Deutsche Bank - Analyst**

Okay. Thank you very much.

---

**Operator**

Thank you. Our next question comes from Duncan Russell from JPMorgan. Please go ahead with your question.

---

**Alex Wynaendts - AEGON N.V. - CEO**

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

Duncan, are you there?

---

**Operator**

I'm afraid he's just (inaudible). Our next question comes from Farquhar Murray from Autonomous Research. Please go ahead with your question.

---

**Farquhar Murray - Autonomous Research - Analyst**

Morning, gentlemen. Just a few questions. Firstly, on variable annuity guarantee, I want to know how policy holder --

---

**Alex Wynaendts - AEGON N.V. - CEO**

So, Farquhar, you -- I can't hear you, you're coming in and out.

---

**Farquhar Murray - Autonomous Research - Analyst**

Can you hear us now?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes.

---

**Farquhar Murray - Autonomous Research - Analyst**

Can you hear us better? Okay. I mean firstly just on variable annuity guarantees, I just want to know how policyholder behavior's performing there, versus both your expectations, whether there have been any changes on the utilization of in money guarantees.

And then, secondly, this is just a follow up to Nick's question. Given the response you've given there, is it fair to assume that the previously given internal target, the excess capital buffer over S&P 1.5 to (technical difficulty) reduces by the full EUR0.7b (technical difficulty) requirement change this quarter? I think it does but I just want to (technical difficulty). That's all.

---

**Alex Wynaendts - AEGON N.V. - CEO**

I apologize, Farquhar, but I can hear half the words you're saying, but not the other half.

---

**Farquhar Murray - Autonomous Research - Analyst**

Oh, okay -- --

---

**Alex Wynaendts - AEGON N.V. - CEO**

For the last question -- I got -- we got your first question but not the second one.

---

**Farquhar Murray - Autonomous Research - Analyst**

Okay, the second one and our apologies, that's almost certainly our phones, on the S&P requirement, you previously gave EUR1.5b to EUR2b as the internal excess buffer. Did you hear that?

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes.

---

**Farquhar Murray - Autonomous Research - Analyst**

I mean is it fair to assume, given the response you gave to Nick, that that has reduced by the full EURO.7b S&P requirement change we've seen in the quarter? Did you hear all that?

---

**Alex Wynaendts - AEGON N.V. - CEO**

I could hear all of that.

---

**Farquhar Murray - Autonomous Research - Analyst**

Okay. Sorry.

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes, on the variable -- VA guarantees and you were asking about customer behavior. As you know we review our assumptions and customer behavior outcomes on a regular basis but in particular in the third quarter we go through a very thorough process. So we will need to see and wait for the third quarter.

I'm just looking at you, Darryl, was there anything that you want to add at this point in time that you can disclose right now?

---

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

Well, just the trends we've been seeing are really twofold. Lapses are generally lower and the utilizations of the guarantees, particularly in the older product, have been fairly low. So those are the two trend lines that we're looking at.

Obviously for guarantees that are in the money, the lower lapses is a negative issue unlike the majority of other products where lapsation goes the other way.

And we're really just coming in to the benefit period, have been over the last year and will be continued over the next couple of years where the old IB products that were written with the 10 year [wait] guarantees are coming into the benefit period. But so far, utilization has been pretty modest there. So those are the two offsetting and influencing behavioral trends.

---

**Farquhar Murray - Autonomous Research - Analyst**

And versus experience or expectations?

---

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

Versus expectations, utilization is better than expected and lapsation is lower than expected. So one favorable, one negative.

---

**Farquhar Murray - Autonomous Research - Analyst**

Okay. Cheers.

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes,

---

**Farquhar Murray - Autonomous Research - Analyst**

And on capital?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Farquhar, on capital, I think what's important is that these changes of S&P affect our operating companies so you're right that the amount of excess capital which we feel is needed and we are comfortable with in our operating companies will reduce by a similar amount.

---

**Farquhar Murray - Autonomous Research - Analyst**

Okay. Thanks very much indeed.

---

**Operator**

Thank you. Our next question comes from Marc Thiele from UBS. Please go ahead with your question.

---

**Marc Thiele - UBS - Analyst**

Good morning. I have one question related to Hungary and the financial tax the country is planning. Can you provide us with the level of the assets held by your subsidiary?

And then, where would you anticipate to capture such a financial tax? Would it be booked into the tax line or into other charges?

---

**Alex Wynaendts - AEGON N.V. - CEO**

On Hungary we'll have to come back on the amounts of assets. What I think is relevant here is that we've disclosed the amount which we expect to pay and that's EUR20m for the year and we've taken EUR10m already in other charges.

---

**Marc Thiele - UBS - Analyst**

So EUR10m has been taken in the second quarter already?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes, because we knew -- we know that the law will be presented to Parliament, I think, September 1, and we know that with a two-third majority the law will be passed; so we felt it was prudent already to take in the second quarter.

---

**Marc Thiele - UBS - Analyst**

Okay, super. Thank you.

---

**Operator**

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

Thank you. Our next question comes from Francois Boissin from Exane BNP Paribas. Please go ahead with your question.

---

**Francois Boissin - Exane BNP Paribas - Analyst**

Yes, good morning. Just three quick questions please. First, on the European Commission you actually expect a decision soon, so what kind of time frame are you looking at?

Second question on gains and losses in investments, you mentioned that you realized gains on bonds held at the holding company. What kind of trend should we be looking at for the coming quarters?

And then, finally, on impairments, if I adjust from recoveries where it's about EUR110m negative this quarter, I mean would you expect a similar trend for the coming quarters? Thanks.

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes. On the European Commission, we said we expect an answer soon. Keep in mind we're in the middle of summer so I'm still expecting it to be soon, yes.

Second thing is, on gains and losses, yes, we said that in the holding we have been able to realize some gains on bonds which were held at the holding. I think you need to consider this more as a one-off and not as an ongoing process in holding.

And in terms of impairments, yes, we had a very good second quarter. We had the best quarter in the last two years. It's now approaching our long term assumption of 30, 35 basis points; this was 10 base points in the quarter. We expect, however, that in this environment we will have to take into account somewhat elevated levels of impairments and I would say, in particular, in housing and then the real estate-related sectors.

---

**Francois Boissin - Exane BNP Paribas - Analyst**

Thanks very much.

---

**Operator**

Thank you. We have a follow-up question from Farooq Hanif from Morgan Stanley. Please go ahead with your question.

---

**Farooq Hanif - Morgan Stanley - Analyst**

Hi there. I just wanted to follow up on -- with some numbers questions on some of the questions that have already been asked. So firstly on upstreaming, I believe that at the Investor Day you said that dividends from operating companies to holding company could be in the region of EUR1b on a normalized basis. Are you sort of getting there soon this year?

And the second thing that you talked about was the excess capital in the operating units - which must be around EUR2b - that you would also see some of that coming through over time and greater fungibility. So can you just give us some feel for the amounts and timing, roughly, please on that?

And the second question is, now that you've changed your 9% -- your DAC assumption, you've kind of reduced it, in the mean reversion corridor, and also you're planning to increase your macro hedge, can you give us an idea of sensitivity to equity markets and earnings please?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Yes. Well, on the first question, yes, we said at the Investor Day that we believed that our businesses should generate in a normalized environment, with normalized levels of impairments, around EUR1.2b. We've also said that the holding effectively needs around EUR600m to

Aug 12, 2010 / 07:00AM GMT, AEGOF.PK - Q2 2010 AEGON N.V. Earnings Conference Call

pay for the coupons on perpetuals and preferred dividends and also for the holding cost, and it leaves around EUR600m under normal circumstances.

We have also said that we hope we are able -- to be able to upstream some of the excess capital and I think I answered a question previously that we see that the regulators are now more receptive to our request to be able to raise some capital. But we also have to take into account that the regulators remain concerned about the environment but I just said we see, clearly, an improvement over last year but everybody clearly remains pretty cautious here.

---

**Farooq Hanif - Morgan Stanley - Analyst**

So do you think this year, by the end of this year, you might be able to get your hands on some of that capital, excess capital?

---

**Alex Wynaendts - AEGON N.V. - CEO**

Well, we will be doing our best but I do not want to disclose at this point in time any numbers.

In terms of the 9% increase, yes, as I said, this is, we think, a logical consequence of our intention to put more macro hedges. There are sensitivities, equity sensitivities in the annual report, and clearly, after we've booked more macro hedges we'll update the sensitivities.

---

**Farooq Hanif - Morgan Stanley - Analyst**

Okay. Thank you.

---

**Operator**

Thank you. (Operator Instructions).

---

**Alex Wynaendts - AEGON N.V. - CEO**

Well, since there are no more questions, I would like to thank you to be listening to our results in the middle of the summer. Pleased to be able to share a good set of results and look forward to seeing you all very soon. Thank you. Bye-bye.

---

**Operator**

Thank you. This does conclude the AEGON second quarter 2010 results analysts and investors conference call. Thank you for your participation. You may now disconnect.



**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2010 Thomson Reuters. All Rights Reserved.