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CONFERENCE DETAILS

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Chairperson: Jan Nooitgedagt

Speakers: Gaby Oberweis
           Jan Nooitgedagt
ACT Operator

Thank you for holding, ladies and gentlemen. Welcome to the AEGON First Quarter 2011 and Embedded Value 2010 Results Media Conference Call on 12 May 2011. 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. If any participant has difficulty hearing the presentation, please press *0 on your telephone for operator assistance.

I will now hand the conference over to Jan Nooitgedagt. Please go ahead, sir.

Jan Nooitgedagt

Thank you. Good morning. Thank you for joining this call to review AEGON’s First Quarter 2011 Results as well as our 2010 Embedded Value. As we usually do we will review the key results for the quarter and then have time for your questions, concluding this call in about 25 minutes or so.

On slide two, before getting into the detail let me provide you a quick overview. We achieved solid progress on our key strategic objectives including the divestment of our life reinsurance activities. In the first quarter AEGON’s underlying earnings were impacted by exceptional charges in United Kingdom and increased longevity provisioning in the Netherlands, something I will come back to in more detail.

Aligned with our strategy to increase fee generating business and reduce spread business we saw strong sales and earnings of pensions and variable annuities in United States while reducing our spread balances further. AEGON’s excess capital position above AA capital requirements remains strong at €3.7 billion including the repayment of a further €1.125 billion to the Dutch state. As you are all aware we aim to fully repurchase the remaining core capital securities from the Dutch state by the end of June. Finally AEGON’s total embedded value increased 6% to almost €19 billion as a result of the positive performance of our in-force business.

On slide three, turning to our continued focus on executing our strategy. As you know reallocating our capital to those business that offer higher returns and growth in our core lines of business has been a consistent priority. During the quarter we made further progress in doing so. Just two weeks ago we announced that we have successfully concluded our negotiations with SCOR to divest AEGON’s life reinsurance business, Transamerica Reinsurance. We were pleased to finally conclude this complicated transaction for a total after tax consideration of $1.4 billion.

During the first quarter we also further increased our fee generating business. The strong earning and sales of pensions and variable annuities are evidence of our progress in this regard. In addition we are refocusing on the growth of our life business in the Central and Eastern European region as evidenced by 42% increase in new life sales.

Our aim to further increase returns of our businesses, our continued focus on reducing operating expenses resulted in a modest decrease during the first quarter. Also we have fully hedged the equity exposure of GMIB back-book something we have previously indicated as an objective.
In the Dutch market we are reorganising AEGON Bank consistent with our strategy to bring more focus to our sales activities. This reorganisation has meant the reduction of 80 staff positions and consolidating these activities into our offices in the Hague resulting in annual cost savings of €20 million. Finally in United Kingdom our restructuring programme to reduce our total cost base by 25% is on track and we announced the appointment of Adrian Grace as the new CEO just last month.

On slide four, last February we announced specific medium-term financial targets for underlying earnings, return on equity, cash flows and to increase earnings from fee businesses to 30% to 35% of underlying earnings by 2015. Again these are medium-term targets. And so all in all we feel that we have made reasonable progress in the first quarter of this year.

On slide five, I would like to turn now to underlying earnings. There were a couple of key factors which came into play, specifically increased life expectancy in the Netherlands, which I will come back to on the next slide, and our programme to redress customers for errors in policy records in United Kingdom. We first identified this issue in the UK in May 2009 and promptly initiated a programme to identify and correct historical issues within its customer policy records. The main priority of the programme has been to deal with issues that resulted in financial detriment and to return effected customers to the financial position they would have enjoyed had the issue not occurred. Efforts to determine the full scope of customer redress is expected to continue throughout the remainder of the year and could potentially lead to additional charges.

In the Americas earnings increased by 2% driven by strong results from both pensions and variable annuities as I mentioned. In Central and Eastern Europe earnings were stable despite the negative impact of the new pension legislation in Hungary and Poland.

On slide six, let me now discuss briefly our decision to make further provisions for longevity in the Netherlands. New projected mortality tables showed a strong increase in life expectancy in the Dutch population as we have shown to you in our third quarter results presentation. At the time I indicated a one time impact on excess capital in the fourth quarter of 2010.

IFRS provisioning is based on yearly observed mortality tables and it is taken through underlying earnings in line with our accounting methodology. This means that actual mortality experience is used to update AEGON’s annual levels of provisioning. Observed mortality for 2010 is not yet available, however, to be prudent we have assumed that a strong improvement in life expectancy seen in 2009 will be continued in 2010. And as a result we will add to our reserves on average €20 million per quarter during 2011 in addition to 2010 level of provisioning.

Slide seven, identifying and ensuring cost efficiencies continues to be a priority. During this quarter operating expenses excluding restructuring recharges came down by a modest 1% at constant currency. The cost reductions realised in the Americas were offset by investments in new distribution capabilities in the Netherlands and further investments in our growth markets in Asia. In the Netherlands you will be interested in knowing that we were successful in forging a new partnership with the leading drug stores of Kruidvat and Trekpleister to distribute non-life and simple life products.

The restructuring charges in United Kingdom amounted to £7 million. At the end of the first quarter we have achieved £37 million of our targeted £80 million to £85 million cost reduction programme. And in the Netherlands we have already mentioned the restructuring of AEGON Bank in order to increase efficiencies. And in our established markets we are determined to grow a number of key businesses while at the same time further improve overall cost efficiencies.
Turning now to net income on slide eight, the €327 million in net income for the quarter was positively impacted by the run-off businesses and lower impairments. The combined result of our run-off businesses increased to €22 million mainly as a result of a lower amortisation yield paid on internally transferred assets related to the institutional spread based business and favourable mortality reserves in the payout annuities block of business.

On slide nine, as I mentioned impairments were at particularly low levels in the first quarter totalling €62 million, the lowest amount in almost three years. This number includes recoveries of €26 million and were mainly to US real estate related securities.

Turning now to sales on slide ten, in order to provide a clear overview of AEGON sales across our businesses we have introduced a single sales indicator consisting of new life sales, new premium production on both accident & health insurance and general insurance as well as 1/10 of gross deposits. We believed this will simplify our sales methods as we aim to continuously improve our disclosures.

New life sales increased in all units except the UK and amounted to €501 million. Particularly in Central and Eastern Europe as I briefly mentioned our refocus on life insurance has yielded strong results with 42% increase in new life sales for the region. You are well aware of the new pension legislation in Hungary and Poland which has given us reason to shift our business focus.

Gross deposits for the Group were somewhat lower mainly as a result of lower inflows in asset management and less savings deposits in the Netherlands. As we have made clear we are focussed on increasing the margins of our business. Gross deposits in the United States however showed solid growth totalling $7.7 billion as a result of higher pension and variable annuity deposits. This again is consistent with our strategic shift to a more fee generating business.

On slide 11, our US pension business was a particular standout in the first quarter. Gross and net deposits continue to be strong while account balances and earnings showed a further increase compared to previous quarters. The noticeable improvement was particularly driven by our third party administration business in addition to our Plan Administration Service and Support Product. And finally we attribute the continued low withdrawal rates to our focus on delivering high quality service.

On slide 12, in the United States we are putting a lot of focus on the at retirement market where we see a clear and growing need for longer-term guaranteed income products. Consequently AEGON’s variable annuity deposits increased 46% year-over-year. At the same time competitors are rationalising their pricing and a number of competitors have exited the market which also benefited our VA sales results. And of course the progress of this business is consistent with our strategic focus to shift from spread based to fee business.

Turning now on slide 13 to AEGON’s capital position. At the end of the first quarter excess capital remain strong at €3.7 billion. The payment to the Dutch State was partly offset by the raising of equity in the amount of €903 million in February this year. Again we did so to support our targeted core capital ratio, to maintain a sufficient buffer at the holding as well as support our aim to repurchase the remaining core capital from the Dutch State by the end of June.

Slide 14, we have decided to publish our operational cash flows on a quarterly basis going forward to keep you informed of our progress of increasing our operational cash flows by 30% by 2015 from the normalised 2010 level of €1 billion to €1.2 billion. During the first quarter earnings on the in-force remain strong. Investments in new
business are driven by sales volumes and our strategic shift from spread to fee based business.

Slide 15, the core capital ratio remain stable at 75% as the impact of the repurchase of the core capital securities including the agreed 50% premium was offset by the raising of equity as well as other movements. As mentioned last quarter the repurchase of the remaining core capital securities will be funded by internal resources. The divestment of Transamerica Reinsurance will enable us to upstream $1.1 billion to the holding. As we have announced it is our aim to have a core capital ratio of at least 75% of total capital by the end of 2012.

Slide 16, turning now to our embedded value results for 2010. Our total embedded value rose 6% to almost €19 billion. This increase was due to positive performance of our in-force business as a result of cost savings, improved financial markets and strengthening of currencies. In line with our strategy to reduce the relative capital allocated to our US operations this slide also makes clear that we are generating more VNB outside United States. This is demonstrated by the fact that new markets which only represent 7% of embedded value already generate 21% of VNB.

Before turning to your questions, let me briefly summarise. We are pleased with our progress on a number of our strategic objectives. AEGON’s solid underlying earnings were impacted by exceptional charges in United Kingdom and increased longevity provisioning in the Netherlands. In line with our strategy to increase fee business and reduced spread business in United States we achieved strong sales and earnings growth of pensions and variable annuities.

As a result of the positive performance of our in-force business total embedded value increased 6% to nearly €19 billion. AEGON’s excess capital position above AA capital requirements remain strong at €3.7 billion and we are on track with our aim to fully repurchase the remaining core capital securities by the end of next month. As always we appreciate your interest in the steps we are taking to position AEGON for sustainable earnings growth consistent with our risk return objectives.

Thank you. I am happy to take your questions.

**ACT Operator**

Thank you, sir. If any participant would like to ask a questions, please press *1 on your telephone. If you wish to cancel this request, please press *2. Your questions will be polled in the order they are received. There will be a short pause whilst participant register for a question.

Your first question comes from Maud van Gaal from Bloomberg. Please go ahead.

**Maud van Gaal – Bloomberg**

Good morning. I had a question with regards to Asia actually, your activities in Asia where you are still investing, so I noticed a media report recently on your asset management business in India. Can you comment on that, are you withdrawing from that?

**Jan Nooitgedagt**

Thank you for your question. I’d like to tell you that we are very pleased with our Asian operation and it is part of our new markets as you have seen in our results. We have seen quite a substantial growth especially in VNB and the business we generate in our
new markets. I can only tell you that we like to continue invest in India and in China and our new markets especially in Asia.

**Maud van Gaal – Bloomberg**

But are you in talks with capital market regulator over there on mutual fund license?

**Jan Nooitgedagt**

I missed your question, sorry.

**Maud van Gaal – Bloomberg**

But are you in talks with regulators in India to give up your license to be active in India’s mutual fund industry?

**Unidentified Speaker**

Maud, let me come back to you on that, OK. I have to check with our colleagues there and confirm that or provide you some further clarification, OK.

**Maud van Gaal – Bloomberg**

Thank you.

**Jan Nooitgedagt**

?? come back to that.

**Maud van Gaal – Bloomberg**

Thanks.

**ACT Operator**

Thank you. Your next question comes from Gilbert Kreijger from Reuters. Please go ahead sir.

**Gilbert Kreijger – Reuters**

Good morning. I was wondering about the UK and these charges that you have taken. I remember that you have previously also taken some charges or at least announced that there were potentially problem with some products. Could you remind me when that was and whether you have actually also already made some charges before?

**Jan Nooitgedagt**

As I said we started with reviewing our whole portfolio and customer data since May 2009. And we have charges, as I remember, in Q3 2009 and we also have taken charges in Q4 2010 and now in the first quarter 2011. My feeling is we are totally on track, we spent a lot of time and energy in going through all the files and paying back the customers what they need to have. In general what I can say is there might be more charges but we feel that the majority we have now behind us.

**Gilbert Kreijger – Reuters**
What were these charges again in Q3 2009? I have seen that it was €30 million in Q4 2010 but what was it in Q3 2009?

Jan Nooitgedagt

I think it is roughly £35 million at that time.

Gilbert Kreijger – Reuters

OK. Can you estimate what the impact might be to close this chapter? You expect to have this the majority you call it – I don’t remember the exact term how you call it but you expect that to be completed majority of this?

Jan Nooitgedagt

I like to tell you that it is part of our whole restructuring of our UK business which we believe at the end of this year will be achieved. And so we don’t expect any more charges after this year and that we are able to give you a clear answer at the end of this year.

Gilbert Kreijger – Reuters

OK. You cannot give an estimate of what future charges could be?

Jan Nooitgedagt

That’s always difficult but what I can say in general that we believe we have the majority behind us and we will finish this whole project at the end of the year.

Gilbert Kreijger – Reuters

OK. Final question on this, is this also related to this December fine that you received from the British Financial Service Authority?

Jan Nooitgedagt

The fine we got that was for the past but we agreed also with the FSA to finalise this project which we initiated ourselves in May 2009. But it is clearly in full agreement with the FSA that we are doing this.

Gilbert Kreijger – Reuters

Yes. I understand correctly that you are paying customers, compensating them because for some reason they had either been overpaying or you have been giving too little returns on certain product, is that how I should look at it?

Jan Nooitgedagt

Let me tell you that we are paying to our customers what we believe that is there, that we believe they would based on the calculation we have made for paying back to our customer what they need to have.

Gilbert Kreijger – Reuters

OK. Thank you.
ACT Operator

Thank you. Your next question comes from Djaja Ottenhof from ANP. Please go ahead.

Djaja Ottenhof – ANP

Good morning, just following up. Could you maybe again explain what kind of policies or products this whole thing was about? Is it life insurance or annuities and is it comparable to what we call in Holland ??.

Jan Nooitgedagt

It is – we are talking about relatively small amounts but a lot of policyholders and that is the reason we are going through a very thorough process and the amounts we are talking are not huge but in total if you look at the policyholders we have that is why we take so much time to go through all the records. We make these payments it’s for pension products in the United Kingdom and the calculations we make are on track and we have paid already a lot to our policyholders back.

Djaja Ottenhof – ANP

OK. You are saying you have been in discussion with the FSA. There is also be another big scandal if you will in the UK with PPI and the banks. Is there somehow a connection? FSA has more access in looking at policies and financial products that have been sold in the past.

Jan Nooitgedagt

As I said we have initiated ourselves this whole project in 2009 and we are now finalising this project before the end of the year. And we have paid already a substantial amount as we have taken the provisions in 2009 the end of the year and the first quarter of this year. We expect to finalise this whole project before the end of the year. To make it more clear, we are talking about administrative errors in our policy administration for our pension products.

Djaja Ottenhof – ANP

Administrative error, so its not about excessively high costs or –

Jan Nooitgedagt

No. To make it clear, it has nothing to do with costs just administrative errors which we have made in the past and we have to fix ourselves.

Djaja Ottenhof – ANP

How many customers are involved, those concerned in total? Do you have an estimate of that?

Jan Nooitgedagt

I don’t know exactly but we have an important market share in United Kingdom, so you can assume that we are talking about a lot of customers.

Djaja Ottenhof – ANP
One more question on the life expectancy. You will make an extra reservation of €20 million per quarter, right. What was the base level last year, what is the number that this €20 million is coming on top of?

**Jan Nooitgedagt**

Now what is important to understand is that we are following the provisioning of course on a year-by-year basis and we have seen increases in observed mortality with actual experience during 2008, 2009. We have now assumed that the mortality tables and observed mortality the trend in these mortality tables will continue going forward in 2010 which are not yet available. And this assumption led to the conclusion that we would potentially take an €80 million additional provision at the end of this year. And to become prudent and to be prudent we decided and I decided in this quarter to take €20 million of the expected €80 million for the full year and that is what we have done in this quarter. We have run through all our files and concluded that if the mortality tables in 2009, the positive trend is continuing in 2010 then it is prudent to take €80 million and one quarter of €80 million is €20 million in this quarter.

**Djaja Ottenhof – ANP**

OK, all right. Thanks.

**ACT Operator**

Thank you. Your next question comes from Marten Van Tartwijk from Dow Jones. Please go ahead, sir.

**Marten Van Tartwijk - Dow Jones**

Yes, good morning. Another question on this longevity risk. It only seems to be a problem in the Netherlands but I could understand or I suppose that it could also be an issue in other mature markets, the United States or the United Kingdom. Do you foresee any problems or may be – I don’t know if it is really a big problem but do you see the same trends happening there? And could this mean that you may take extra provisions for those market as well? Thank you.

**Jan Nooitgedagt**

What we see is we see of course the mortality tables improve especially in Western Europe. What is very important is that you have to compare it with our products. What kind of products we have? The pension products, I think in general it is good to say that in the US our products are more depending on mortality and in Western Europe especially in the Netherlands on longevity. We are following this in the UK, in the US and in the Netherlands and there we are also looking very carefully in the way we can axe these risks because you can also look at population in your products to match the mortality risks with the longevity risk.

Especially in the Netherlands it was obvious that the improvement in longevity, especially the trend in the improvement was remarkable in the last two years. And that is the reason that we have taken an additional provision in the Netherlands based on our accounting methodology. At this moment in time I don’t feel the need to take more provisions elsewhere in the world but always we will follow this very carefully. The importance is, to give you a clear answer, that there is always especially in the mortality risk a positive impact and that we see more in the United States.

Transcript of 4438419 ACT conference on 12 May 2011
But the conclusion is that we do our provisioning on a quarterly basis and that we have done this in the Netherlands to be more prudent as we expect a potential provision for the end of the year. We have taken already one quarter of that provision.

**Marten Van Tartwijk – Dow Jones**

OK. I understand this is not really an issue for your business in the US, that is right to summarise?

**Jan Nooitgedagt**

No.

**Marten Van Tartwijk - Dow Jones**

All right. Thank you.

**ACT Operator**

Thank you, sir. Your next question comes from Gilbert Kreijger from Reuters. Please go ahead. Mr Kreijger, your line is open.

**Gilbert Kreijger – Reuters**

Good morning again. I was wondering could you tell something about the demand for insurance products in Europe and United States and other parts of the world. I mean do you see an improvement or stabilisation, what is your view on that?

**Jan Nooitgedagt**

What we have seen, I think it is quite important to talk about AEGON, a strong positive development in United States in our pension business. We are growing in our pension business with double digits number. We are growing faster than the market is growing. And what we also see in our variable annuities products a real growth in sales and in earnings this quarter but that is also if you compare it with previous quarter. Quarter-over-quarter we see a growth in pension and our annuity business in the United States. But also important is that you see strong new life sales growth in Central and Eastern Europe even with we have to stop our mandatory pension business in Hungary that has been compensated by growth in life sales. And of course we see also growth in other areas in Asia. And what we see in the Netherlands, the life business in the Netherlands is shrinking on the other hand we see growth in pensions. We also have seen in this quarter a growth in mortgages. As we have discussed earlier we are restructuring our UK business but there we also expect a growth in our pension market.

**Gilbert Kreijger – Reuters**

Would you say that the hesitation by customer that we saw during the credit crisis to buy insurance products or pension products that has faded?

**Jan Nooitgedagt**

I think what you already have seen in our 2010 numbers a substantial increase between 2010 and 2011. And I expect that will continue going forward.

**Gilbert Kreijger – Reuters**
OK. Thank you.

**ACT Operator**

Your next question comes from Peter Lalkens from Dutch Financial Daily. Please go ahead.

**Peter Lalkens – Dutch Financial Daily**

Yes, good morning Mr Nooitgedagt. You mentioned in your presentation that you made reasonable progress in achieving your longer-term goals. Reasonable progress does it mean that you expected more of the first quarter?

**Jan Nooitgedagt**

What I have said, look at the results that we have made progress on our strategy. What I specifically meant is also the shift you see from spread business in fee business. And especially in the Americas if you look at the growth in sales and in earnings in our pension and variable annuity business that is fully in accordance with our strategy. What we also see is that the changing of our risk return profile, the fact that we have now fully hedged our GMIB back-book, the fact that we have raised equity during the first quarter, that we have paid back €1.125 billion to the Dutch State.

The fact that we have restructured our business in several places in the world, especially in the established market in the United States, in the Netherlands and we are also on track restructuring our UK business. All in all, I feel that we are on track and that we also implementing our strategy which is for me very important.

**Peter Lalkens – Dutch Financial Daily**

In achieving your longer-term goals that’s you have growth in underlying profits goal of 7% to 10% while it declined in the first quarter. Are you still on track with that?

**Jan Nooitgedagt**

What is important is we also explained that we have made some changes in our underlying earnings, that the whole COLI/BOLI business has been allocated to the run-off business line, Transamerica Re has been allocated to run-off business line. What is important is if you look at our results and you set aside for a moment the exceptional charges we have taken in this quarter then you see a result which is in line with our strategy. And I also believe that financial targets we have set for the mid-term that we believe that these financial targets will be met also based on these results.

**Peter Lalkens – Dutch Financial Daily**

OK. Thank you very much. The last question, the exposure to peripheral sovereign bonds you lowered it to €1 billion. In which countries do you still have sovereign bonds?

**Jan Nooitgedagt**

As you know what I can tell you is that the specially Greece, Portugal and Ireland are relatively small. The biggest country is Spain but it has more to do with our investments in Spain, as you know the money we get from our policyholders is also invested in Spain, the Spanish policyholders invest in Spain that gives us the highest exposure in Spain. But for the rest I feel very comfortable and we have been as you said looking at this quarter-by-quarter and trying to reduce if possible.
Peter Lalkens – Dutch Financial Daily

OK. Thank you very much.

Greg Tucker

We will need to conclude now to continue with the rest of the activities today. Happy to follow up with you throughout the day though. Thank you very much.

ACT Operator

Thank you, sir. That concludes the AEGON First Quarter 2011 and Embedded Value 2010 Result Media conference call. Thank you for participating. You may now disconnect.

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