Jan Nooitgedagt - Aegon NV - CFO

Good morning. Thank you for joining our call this morning on Aegon's third-quarter 2011 results. Also joining me are Michiel van Katwijk, Executive Vice President, Darryl Button, our CFO of the Americas, and Willem van den Berg, Head of Investor Relations. Before getting started, let me remind you to take a moment to review our disclaimer on forward-looking statements which is at the end of this presentation. Of course we look forward to your questions after the presentation.

You are well aware of the extreme market circumstances during the third quarter. Nonetheless, Aegon has been able to withstand the ongoing turmoil given the actions we have taken to reduce our financial markets exposure while maintaining a strong capital position and franchise. We have revised our interest rate assumptions to reflect the economic environment, which also had a notable impact. However, we believe that all in all our businesses performed relatively well during the quarter.
Slide three. On several occasions we have discussed with you our financial targets and we will continue to provide you regular updates on our progress. In December at our analyst and investor conference in New York we plan to provide you with our sensitivities to financial markets. However, let me emphasize that we are fully committed to taking the necessary strategic steps to achieve these targets.

Slide four. Let me now turn to underlying earnings for the Group. The market impact on earnings in the third quarter versus the second quarter was well in line with sensitivities we provided last quarter. The decline of equity markets in the 10-year US treasury rate resulted in a negative impact of EUR33m on third-quarter earnings. As indicated, we have reviewed our assumptions in the US, which we do annually in the third quarter. This led to a gain of EUR35m in underlying earnings mainly as a result of updated mortality assumptions.

In Central and Eastern Europe long-life claims increased sequentially, which is a typical seasonal pattern, while in the US earnings from fixed annuities continued to decline as this line of business is deemphasized and product balances continued to the client as well, in line with expectations. In the Netherlands, results were impacted primarily by lower margins in the Life business.

Here on slide five we provide an overview of earnings by country unit. Compared with last year, underlying earnings from the Americas were lower mainly due to the lower fixed annuity earnings, which, as you know, we are deemphasizing given the current yield environment. Fee-based earnings, however, increased in line with our strategic objectives. I will come back to the Americas in more detail.

In the Netherlands, earnings were impacted by the higher provisioning for longevity in pensions and investments in new distribution capabilities.

In the UK, underlying earnings were negatively impacted by lower fee income as a result of lower equity markets and higher exceptional charges, mainly associated with the ongoing customer redress program we have briefly discussed with you. We are also investing in a new platform which is part of the new operating model we are implementing in our UK business, which we believe will be the basis for growth going forward. In a moment I will update you on where we are with our expense reduction program underway in the UK.

Underlying earnings before tax in new markets was lower, primarily due to the negative impact from pension legislation changes and lower investment income. These negatives were only partly offset by higher results from non-life business.

On slide six, turning now to net income. The EUR60m in net income for the quarter was positively impacted by one-time tax benefits and gains on investments which were related to normal trading and the sale of our life reinsurance activities. Impairment charges amounted to EUR132m, of which EUR76m was related to US residential mortgage-backed securities, EUR29m was mainly related to the CEE where new legislation in Hungary pertaining to Swiss-franc-denominated mortgages had an effect on our mortgage portfolio, and then EUR22m was related to our financial holdings in Portuguese and Greek banks. I’ll get back to our exposure to peripheral European countries in a moment.

Clearly fair value items had the biggest impact on net income this quarter. Lower interest rates and equity markets, spread widening and higher volatility all contributed to a loss of EUR120m for fair value items. In addition, our decision to change interest rate assumptions had an impact of EUR168m, something I will come back to on the next two slides.

On slide seven, in the US, as I mentioned, we review annually our assumptions during the third quarter relative to current experience and management expectations. On this slide we provide you an overview of the impact of these various assumption updates. The updates related to market movements are shown in fair value items whereas other updates related to mortality, policyholder behavior and expenses are shown in underlying earnings.
The main impact this quarter pertains to the update of our interest rate assumptions which led to DAC charges of $237m. Simply put, we believe interest rates will remain low for a longer period of time and we believe it is prudent for our assumptions to reflect this in this quarter.

Here on slide eight, we want to provide you a bit more color on these updated assumptions. We have lowered our 10-year US treasury rate from 5.25% to 4.75%, implying that over the coming five years interest rates will grade from current yields to 4.75%. On top of that we have also adjusted downward our bond fund return assumption from 6% to 4% for the coming five years and then 6% thereafter.

Our assumptions for money market rates are assumed to remain at 0.2% for the coming two years, followed by a three-year grade to 3%. Finally, we have made no change to our long-term credit spread or default assumptions. Credit spreads are graded from current levels to long-term assumptions over a period of two years. As a result, our assumed reinvestment yield is kept at current levels for the coming two years.

The reasons for making these adjustments are that we expect interest rates to remain lower for the coming period, and we think it’s only prudent to lower our interest rate assumptions to reflect current market conditions. Again, we believe these revised assumptions reflect economic realities for the midterm.

Slide nine. Consistent with our aim to enhance operational excellence, we are continually identifying and pursuing cost efficiencies across our businesses. At the same time it is essential that we make the necessary investments to improve operations and position our businesses for the developing opportunities. Excluding restructuring charges and at constant currency, operating expenses remained level. As I have already noted, we are in the process of implementing plans to substantially reduce costs in each of our established markets.

On slide 10 let me now briefly provide some further detail on our progress to reduce costs in the UK. Last year we announced our restructuring plans for our UK business. I’m pleased to say that we are well on track in implementing these plans and will achieve our cost reduction targets of GBP80m by the end of this year, with the benefits of these cost reductions coming through in 2012. Year to date we have implemented GBP71m of the GBP80m in cost savings. We have eliminated 1,100 roles and exited five businesses, which include recent disposal of Guardian.

As you know, restructuring comes at a cost. As such, I want to emphasize that the provisioning we are taking for the customer redress program as well as the expense reduction program will be completed as planned by the end of 2011.

Slide 11. Reducing our overall cost structure continues to be a key strategic priority. Taking a closer look at the plans we have announced for our business in the Netherlands, we are bringing forward a program to reduce our total cost base by EUR100m compared to the 2010 level. We expect to achieve the majority of this amount in 2012. As I have indicated, we have taken the EUR60m in restructuring charges fully in the third quarter. These cost reductions are necessary to offset the increased provisioning for longevity in addition to margin compression in our life business.

On slide 12, let me now turn to sales for the quarter. Our total sales increased by 2% mainly driven by the very strong level of gross deposits. The benefits of our focus on generating more fee-based business was again apparent in the third quarter, as reflected by high gross deposits and record net deposits.

US pension deposits increased substantially as a result of a higher takeover and annual deposits in the retirement plan space, in addition through a strong increase in deposits for our stable value solutions. Gross deposits in new markets were also strong. New mandates in our asset management business were the main drivers here in addition to solid performance in the retail segment.

Lower new life sales were the result of re-pricing actions and were only partly offset by further growth of our business in Central and Eastern Europe.
And finally, we experienced an increase in accident and health sales within our US employee benefits and affinity marketing businesses. These are typically products that provide supplemental coffers for accident and health-related insurance.

On slide 13, turning quickly for a bit more detail on our US fee-based business. Net pension deposits in the US were very strong at $4.5b. Innovation and customer service is the cornerstone of our pension growth that we see in the US and this continues to deliver strong results for our business. As I indicated earlier, variable annuity sales were particularly strong during the quarter. This was mainly due to the introduction earlier this year of our Retirement Income Max driver. This also led to the strong net deposits of roughly $0.5b.

Asset balances increased 4% compared with last year and came down only slightly from that peak in June. Earnings continued to develop favorably, although earnings within our employer solutions and pension divisions were stable as the third quarter of last year included a reserve release of $13m.

Slide 14. One of our key financial targets is to increase operational free cash flows by 30% by 2015 from the normalized 2010 level of EUR1.2b to EUR1.2b. During the third quarter, operational free cash flows, excluding the impact of markets, totaled EUR397m. However, during the quarter, as a result of lower interest rates and equity markets, cash flows were impacted by EUR1.1b as capital requirements increased. The negative impact was entirely offset by the proceeds of the divestments of the life reinsurance activities, which are not included in our definition of cash flows. And finally, the successful variable annuity and pension sales resulted in higher investments in new business, which of course is a positive for us.

Slide 15. It’s clear that the actions we have taken to improve our risk profile have enabled us to withstand the extreme market volatility we have seen in recent months. This is demonstrated by the fact that the increase of EUR3.5b in the fair value of guarantees was fully offset by hedging results. Over the past three years we have taken extensive measures to fortify and protect our balance sheet. These include increasing equity hedging for variable annuities in US and in the Netherlands, which clearly paid off in the third quarter, as well as reducing our exposure to credit markets and interest rates. And although Aegon today is in a much better position than before, the volatility in the markets have again confirmed the need for solid capital buffers.

Slide 16. Given the continued focus on what is going on in Greece and the discussion about sizeable impairments on peripheral European sovereigns, I want to make clear again that Aegon’s exposure is very limited. Here we provide you Aegon’s total exposure to all fixed income securities related to peripheral European countries. You will notice that our exposure to Spain increased slightly, which is the result of the first-time inclusion of our partnership with Caixa Sabadell, one of our newest bank partners in the country.

Slide 17. Turning now to Aegon’s capital position at the end of third quarter, of the EUR3.4b of total excess capital, EUR1.2b is maintained at the holding level, an increase from the end of the second quarter. Excess capital at the holding improved mainly as a result of the dividends we received from our operating units. Excess capital within our operating units amounted to EUR2.2b. Overall, our capital position continues to be strong, with an IGD ratio of approximately 190% and an RBC ratio of approximately 400%. Again, we believe that it makes sense to maintain a strong buffer given the current turmoil.

Slide 18. During the quarter, shareholders’ equity improved by 16% to EUR19.4b, which translates into a book value per common share of EUR9.21. The increase was mainly the result of a higher revaluation reserve and a positive revaluation of the US dollar since June 30. The improvement in revaluation reserve to EUR2.5b is the combined result of lower interest rates, which were partly offset by the negative effect of spread widening.

Let me reiterate that Aegon continues to be in a strong position in what also continues to be a very uncertain and volatile economic environment. All in all our businesses are performing well. The very high level of sales of variable annuities and pension-related products, our core business, resulted in record net deposits during the quarter, proof that our franchise remains strong.
We are fully committed to completing the restructuring of our established operations in order to reduce their overall cost base and increase returns while, at the same time, positioning our businesses for the opportunities we have identified. We believe that our strategy is the right one at the right time and will allow us to pursue our ambitions in the long term.

Before taking your questions, I would like to remind you to register for our conference December 6 and 7 in New York. We hope to meet you there.

We are now happy to take your questions.

QUESTIONS AND ANSWERS

Operator


Farooq Hanif - Morgan Stanley - Analyst

Morning. I have three questions, if that’s okay. Firstly, what was the driver behind the 50-basis-point reduction in the long-term treasury yield assumption? That’s question number one.

Question number two is that obviously corporate bond spreads have widened quite strongly in the US. What kind of net new -- what kind of new money rates are you actually achieving on investments in the general accounts in the US at the current time?

And question number three is you mentioned obviously that you’re going to update us on your targets and sensitivities at the Investor Day, but then you also said that you’re quite committed to find strategic initiatives to make sure you get to your targets. So I was wondering what you were trying to say. Are you saying that, look, the atmosphere is so bad that it’s inevitable that our targets will slip quite a lot or are there particular initiatives that you can tell us about that will allow you to control that outcome? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Thank you Farooq. Let me tell you in the first place about the reasons for the change of our long-term interest assumptions. We have looked very carefully at the development of the interest rate, especially in this quarter, and we have taken a prudent approach and we have taken full impact of lowering the long-term assumptions rate in this quarter. I see this also as an accounting issue, that based on the current environment that we take this charge in this quarter being prudent from an accounting perspective.

And if I also then take your third [quarter], yes, you are right. We will give sensitivities in our conference in December. I’d also like to confirm again that we are committed to our long-term targets, as we have said, and we will do everything to achieve our long-term targets. Like we do, for instance, in the Netherlands, we have the longevity hit and at the same time we are reducing our cost level to compensate also the longevity hit. But we will give you the sensitivities in December and we are committed to our long-term target.

And I’d like to ask Darryl if you could give a little bit color on the question about corporate bond spreads.
Darryl Button - Aegon NV - CFO, Americas

Yes, sure. Hi Farooq. It's Darryl. Yes, you're right. Corporate spreads have widened out in the US. So as much as treasury rates came down by 130 basis points in the quarter, average corporate spread that we're seeing out there investing in went out by 80, 90 basis points. So net reinvestment yields are not, certainly not down nearly as much as what the treasuries were.

Currently new money reinvestment yield, I think that was your question, we're getting somewhere in the low 4s, 4.25%, 4.5%, somewhere in there. And I think also important to note, as much as we have the rising treasury assumption over the next five years, we also bring those spreads down at the same time, so actually our reinvestment yield assumption is flat over the next two years.

Farooq Hanif - Morgan Stanley - Analyst

To come back on that particular point, so my question was why 50 -- only 50 basis points on the treasuries? And I was just wondering, because if you assume that spreads will recover, surely the impact could be worse than that, well, its potential -- potentially could be worse than that. Why only 50 basis points?

Darryl Button - Aegon NV - CFO, Americas

I think you hit on a major point, which was the reinvestment yields, so what we're seeing in the marketplace, haven't really moved that much. And it's really not the treasury assumption as much as it is the net reinvestment yield that matters and is most critical to our assumptions. So our general assumption is that we think rates are going to rise over the next five years. We don't exactly know the path that it's going to take. We have the corporate spreads coming down as much as we have the rates rising over the next two years. So we're really assuming a sideways movement for the next two years in reinvestment yield and then we think that we'll get into a higher interest rate environment towards the back half of that five-year plan.

Farooq Hanif - Morgan Stanley - Analyst

And really sorry to keep hogging the mic', but just going back to that assumption, so you're assuming a reinvestment yield essentially that is consistent with your current reinvestment yield going sideways. And are you assuming that treasury yields go up linearly or do you have a shape to it which looks after year two, year three, it rises more quickly?

Darryl Button - Aegon NV - CFO, Americas

Yes. The term part of the structure is a linear grade over the next five years. But we do have the front end and the short end of the curve is actually pegged to essentially zero over the next two years and then grading up to more of a normal-shaped yield curve environment three years out. So we grade -- we hold zero at the front end of the curve for two years and then we start to grade towards 3% over the next three after that.

Farooq Hanif - Morgan Stanley - Analyst

Okay. And your assumption right now essentially is very consistent with the actual reinvestment yields that you're making, and you're assuming that goes sideways.

Darryl Button - Aegon NV - CFO, Americas

Yes, exactly.
Farooq Hanif - Morgan Stanley - Analyst
Okay. Thank you very much.

Operator
Thank you. Your next question comes from Michael van Wegen. Please go ahead sir.

Michael van Wegen - Bank of America - Merrill Lynch - Analyst
Yes, morning. Michael van Wegen, Bank of America - Merrill Lynch. Two questions. I'm afraid I have to go back to your -- the first question from Farooq as well on your targets. In the press release you basically state the targets with very clearly stating, look, they're based on a 5.25% long-term interest rate. At the same time your accounts show that you don't think 5.25% is realistic. So could you help us, try to further help us understand why these targets that you do want to reiterate today feel are reasonable? And yes, I guess help us understand with that one.

And then the second question is on your impairments that you mentioned for mortgages in Eastern Europe. In your financial supplement you show that you have residential mortgages for new markets of €367. Could you indicate how much of that is related to mortgages in Central and Eastern Europe? And could you help us understand what the risk of that portfolio is by providing us some numbers in terms of loan to value? Thank you.

Jan Nooitgedagt - Aegon NV - CFO
Yes. If my -- the first question about the targets, again I'd like to say again is that we are committed to our long-term targets. I think you should look at the accounting on the one side and our targets on the other side. We will give the sensitivities for the targets beginning of December in the conference.

At this moment in time, looking at the end of this quarter, we have taken -- we have changed our long-term interest rate assumptions, like Darryl explained earlier, because we want to have a more prudent approach in our accounting. And that is based on the current environment. That doesn't mean that we believe interest will increase over time, but will stay flat like Darryl explained for the coming two years. I think this is a prudent approach for our accounting this quarter.

The question about the mortgages, if I understand you well, the portfolio you're talking about, the new markets is, almost 100% is the Hungarian mortgage portfolio. It is the provision we have taken is based on the chance that we believe that the customers could, if they get the finance right, they could get a better exchange rate between Swiss franc and the Hungarian forint, and based on that potential loss we have taken a provision. By the way, this is the customers have the period till the end of the year to get the refinancing for the mortgages and then we will know exactly what the ultimate outcome will be. I feel that we have been very prudent in taking this provision for this quarter.

Michiel van Katwijk - Aegon NV - EVP
I thought that -- Michael, this is Michiel. Maybe I can follow up on that. On a loan to value question you asked, they tend to be very low in Central and Eastern Europe when the mortgages are originated. Willem will follow up with you with more detail.

Michael van Wegen - Bank of America - Merrill Lynch - Analyst
Thank you.
Jan Nooitgedagt - Aegon NV - CFO

Very good.

Operator

Your next question comes from Jan Willem Weidema. Please go ahead, sir.

Jan Willem Weidema - ABN Amro - Analyst

Good morning. Jan Willem Weidema, ABN Amro. A few questions. The IGD ratio went down while your excess capital over AA went up. Could you give a little bit more color on that?

And could you help us with any kind of IGD target that you might have?

Secondly on CAM, could you elaborate on timing there and say something about a possible break-up fee?

And thirdly in Hungary, can you tell us what participant rate you assumed for the FX mortgages, please?

Jan Nooitgedagt - Aegon NV - CFO

Yes. The first question about the IGD ratio, I think we have given you the ratio of the Group in total. It's approximately 190%. You are referring to the difference with the excess capital. We also have given you the ratio of, RBC ratio for the US, around 400%. And the ratio in the Netherlands is also close to 190%. Is that sufficient or are you --

Jan Willem Weidema - ABN Amro - Analyst

I was looking for some color on why the IGD moved down while the excess capital over AA went up.

Michiel van Katwijk - Aegon NV - EVP

Right. Jan Willem, hi. It's Michiel. I can provide a little bit more color on that. On our excess capital, is basically is based on the most stringent capital requirements based on regulatory capital and S&P capital. In, particularly in the Netherlands you see the effect on S&P that with interest rates declining, excess capital’s going up. So that's driving part of the increase in excess capital.

IGD is down slightly, as Jan mentioned. In our two most important markets, IGD -- sorry, the RBC ratio actually is around 400%. The Netherlands it was down a little bit, but around 190%. And in other areas we saw a decrease as well. And for with regard to a target for IGD, we do not have a specific target. But we tend to target 175% IGD. Also that translates in the US on an [NASC] RBC ratio to 350% plus.

Jan Willem Weidema - ABN Amro - Analyst

Okay, thank you.
Jan Nooitgedagt - Aegon NV - CFO

Your second question about CAM, as you know, we are in the sale process, arbitration process. I cannot disclose at this moment in time any more and we expect more in the second half of next year.

The third question about Hungary and the percentage, I think this typically a question you, if you ask IR and they will come back to you.

Jan Willem Weidema - ABN Amro - Analyst

Okay. Thank you.

Operator

Thank you. Your next question comes from Thomas Nagtegaal. Please go ahead, sir.

Thomas Nagtegaal - RBS - Analyst

Good morning gentlemen. I have two questions. Regarding your assumption changes on interest rates, were there any DAC impacts included there as well?

And what kind of levels of interest rates would threaten your current DAC balances, especially in the US?

And second relating to your future dividend payouts, is there any kind of capital threshold at all in which you take into account when trying to model in what you could potentially pay over time? Thanks.

Jan Willem Weidema - ABN Amro - Analyst

Yes, the, your question about interest, I'm also looking at Darryl, but this is the full impact what we have done in this quarter is, that is the DAC what we have charged in this quarter part of fair value items. So you could also say we have now less DAC to amortize for the future. So that, I hope that I have answered your question. The whole impact is DAC.

Thomas Nagtegaal - RBS - Analyst

Okay, clear.

Jan Willem Weidema - ABN Amro - Analyst

And the second question about, that was especially about capital in the holding. Maybe good to mention that we are -- we have the same intention as we had last quarter about our dividend policy for next year for EUR0.10 for the second half of this year.

Michiel van Katwijk - Aegon NV - EVP

Yes, and Thomas, on capital, the capital threshold in holding is based on a 1.5 times cash flow from the holding. So 2011 1.5 times ended up to be EUR900m. Going forward I think that the cash outflow of the holding will slightly decline and so that number actually is likely to come down a bit, but not with huge amounts.
Thomas Nagtegaal - RBS - Analyst
Okay. Thank you.

Operator
Your next question comes from Nick Holmes. Please go ahead, sir.

Nick Holmes - Nomura - Analyst
Yes, good morning. Couple of questions on the US please. Firstly, sales of pensions and variable annuities seemed to hold up very well and I wondered what your outlook going forward is. In particular, do you expect savings levels to come under more pressure because of the difficult economic environment?

And then second question is on low interest rates and in particular your universal life book, where the average guaranteed rate is quite high; it's at 4%. And I wondered basically if you've got concerns about this although I also note that in Q3 there was no evidence of any reason for concern, indeed your spread actually widened. But comments about how you see that going forward would be welcome. Thank you.

Jan Nooitgedagt - Aegon NV - CFO
Yes, Nick, I will ask Darryl to answer it, both questions.

Darryl Button - Aegon NV - CFO, Americas
Yes. Hi Nick. It's Darryl. You asked about pension and VA sales. Yes, both have been trending very well so we're pleased with both. Pension sales quarter to quarter can be a little lumpy so you have to really look at the year-over-year picture, which is still very strong and we expect that to continue in the next year. And you'll hear more when we're in New York as well on why we think that those levels are going to continue and see the growth that we've seen there.

On the VA side I would say that low interest rates are going to be a little bit of a challenge in the VA space. We have to take a look at the current rate environment, so hedging costs go up as interest rates go down. If interest rates stay where they are today we will actually be making some more product changes and we'll probably be doing that in December timeframe. We have shown a tendency to lead in the market in those regard. So to the extent that we make changes ahead of the competition, I would say that will pressure sales until the competition follows.

It is a very much interest rate dependent story, though. So as interest rates go down we're committed to changing the product and getting the hedge costs back on side and getting back our profitability level. So in the near term it’s possible that that could have a one to two quarter impact on sales until the competition do it as well.

Nick Holmes - Nomura - Analyst
Okay. And -- yes?
Darryl Button - Aegon NV - CFO, Americas

I guess just the follow on to that would be that as the market reprices and we deal with low interest rates, obviously that brings the level of features and benefits down in the product so that has an impact on overall aggregate level of sales as well. So that's something that we're just committed to being very responsive to and following the hedge costs.

Nick Holmes - Nomura - Analyst

Yes.

Darryl Button - Aegon NV - CFO, Americas

UL: Yes, sorry, you asked about UL as well.

Nick Holmes - Nomura - Analyst

Yes.

Darryl Button - Aegon NV - CFO, Americas

Yes, a lot of it gets back to the conversation we had earlier with Farooq. The new money yields really haven't fallen as much as what the treasury yields have fallen. Spreads have widened out to offset that. So the residual new money impact, it has a declining impact on the book yields, but not as severe as you might think. So there is that muting impact from spreads as well as we have a lot of interest rate protection in the long assets that we have in the portfolio backing this. So that causes a smaller impact and over time.

Nick Holmes - Nomura - Analyst

So is the duration of the universal life asset book longer than the fixed annuity? Is there a reason why the spread is not under so much pressure? In Q3 it actually rose, didn't it?

Darryl Button - Aegon NV - CFO, Americas

It absolutely is longer, a lot longer. The liability is a lot longer so that's absolutely true. And -- but that being said I think you were also asking a new business question and the reality, the reality with the UL product is it is sensitive to low interest rates and so we have been doing quite a bit over the last year.

Going back into last year we pulled a couple of our single premium universal life products, which are the bank channel universal life product which was very much a rate-sensitive product, we pulled that off the market. We just couldn't justify it in the low interest rate environment. We've actually been increasing rates on our baseline domestic product as well. So -- and we've been lowering some guarantees as well. So we're doing a lot of activity to make sure that the new business profitability stays in check with this low interest rate environment that we're in.

Nick Holmes - Nomura - Analyst

Okay. Thank you very much.
Operator
Thank you. Your next question comes from Robin Buckley from Deutsche Bank. Please go ahead, sir.

Robin Buckley - Deutsche Bank - Analyst
Yes, good morning. Just a couple of questions if I could please. First of all, just on the fungibility of capital across the Group, could you just give any comments just about how easy it is to dividend capital up from the US or the Dutch business given the RBC and IGD ratios that you commented on?

And my second question is just related to the fixed annuity business. We saw margins coming down there in the third quarter. They seem to be pretty much at the level you've guided at over the longer term. How should we be thinking about margins progressing from here?

And also could you just comment on what we should expect in terms of the asset balances as well as (inaudible) business? Thanks very much.

Jan Nooitgedagt - Aegon NV - CFO
Yes, Robin. The first question about the fungibility of capital, I think it's clear that if you look at also at our excess capital numbers that we have received in the holding dividends from our major subsidiaries. So I don't feel that there's any restriction if you talk about fungibility of capital. We also have said that we stick to our dividend policy. I think we have given you the ratios, the IGD ratios, and so you can clearly see that we have a strong capital position.

Are there any other question you want to know about fungibility?

Nick Holmes - Nomura - Analyst
Just in terms of conversations that you have with regulators, has their attitude become slightly more conservative or cautious I guess just to given the volatility that we saw in the third quarter?

Jan Nooitgedagt - Aegon NV - CFO
If you look at the -- there are of course difference all around the world. In Europe we had discussions also with our regulators about Solvency I and clearly about Solvency II discussion. And we of course have the US. And we look at our S&P excess capital levels around the world and about the statutory capital levels. But I feel comfortable about the strong capital position, and our ability to get dividend out of business units.

Nick Holmes - Nomura - Analyst
Okay. Thank you. And on the fixed annuities?

Jan Nooitgedagt - Aegon NV - CFO
Yes. Maybe Darryl if you can answer that question?
Darryl Button - Aegon NV - CFO, Americas

Yes Robin. I think you had two questions, one on margins and one on volume. On the margins question, yes, we are back down around our guidance level. The excess margins that we had been seeing going back a year or two ago, those, we’re really not going back to those levels. We’ve had to add liquidity and de-risk the book as we’ve come forward. And particularly in the run-out, as you’re running off a book, liquidity is something that obviously we have to pay attention to on the way out. So I would say the taking some risk off the book and adding that additional liquidity has taken the margin back down I would say around our long-term guidance level. And I think that’s probably a good rule of thumb going forward.

On the volume side, we are experiencing $700m, $800m in net outflows every quarter and I would expect that to continue. We also look for opportunities to accelerate the fixed annuity run-out and we actually did do about a $1b co-insurance deal at the end of the second quarter so that has accelerated some of the volume off as well.

Nick Holmes - Nomura - Analyst

Okay. Thanks very much.

Operator

The next question comes from Farquhar Murray from Autonomous Research. Please go ahead sir.

Farquhar Murray - Autonomous - Analyst

Hello. Morning gentlemen. Just two questions if I may. Firstly, looking at the operational free cash flow on slide 14, you showed the EUR397m excluding market impacts of 3Q. Now that’s the significant up-tick q-on-q from the previous quarters. My question there is whether that’s coming from something specific in 3Q ’11 itself or is it just an artifact of not being able to see the market impacts in the prior quarters? And I’m asking that obviously because I’m trying to get a sense of the run rate on a clean basis is going forward.

And then secondly, the US RBC ratio of 400% is much better than I think the sensitivities you gave in August would have suggested. I just wondered if you could explain the delta there. Many thanks.

Jan Nooitgedagt - Aegon NV - CFO

Yes, the -- if you look at slide 14, you are right, operational free cash flow EUR397m normalized. But we also have given the normalized level of 2010 between EUR1b and EUR1.2b. Yes, in this quarter, the normalized level is higher than you would expect from previous quarters. Is that a specific reason?

Michiel van Katwijk - Aegon NV - EVP

Yes, hi, Farquhar. It’s Michiel. I think that the quarter excluding the market effect shows a pretty healthy cash flow in the US particularly. I think in other areas the cash flow has been along with our expectations, but I think that the slight up-tick you’re seeing there is predominantly driven by the US.

Farquhar Murray - Autonomous - Analyst

Is that just a seasonal factor or is it structural?
Michiel van Katwijk - Aegon NV - EVP
No. It’s in part it is due to a one-time effect during the quarter, but that was not on a huge difference. I think that what we’re seeing is that underlying cash does remain quite healthy in our core businesses.

Farquhar Murray - Autonomous - Analyst
Okay.

Jan Nooitgedagt - Aegon NV - CFO
Yes, your question about the high level of the RBC in the US, I think that the lower interest rates and the lower equity markets, the impact of these markets is lower than we have expected. And we also have to take into account that these factors have also, there is a dampening effect in the RBC calculation, but maybe Darryl you can elaborate a bit on that.

Darryl Button - Aegon NV - CFO, Americas
Yes, Farquhar. It’s Darryl. Yes, we did have a good strong capital quarter as Michiel talked about. We had some tax that was more of a one-timer come into the capital calculation as well, which was favorable.

The broad story from an RBC ratio perspective, we did close the TA Re sale and that was accretive, over 75 points of RBC ratio accretive. And then we had the market impact and I think our sensitivities would have guided to a larger market impact. And actually what we saw is that the market and the rate swing was so severe there actually is a dampener effect that kicks in, in the RBC calculation when the move is so strong. And so RBC it was probably about 20 points better than what we thought because of that dampener and that’s probably what you’re looking at. I would say that that is a bit of a timing mechanism and so we’ll see that as a two-year type smoothing mechanism. It’s a very complex calculation, but some of that will come back into next year.

Farquhar Murray - Autonomous - Analyst
Okay. Should we take that 20% linearly across the two years then as a drag?

Darryl Button - Aegon NV - CFO, Americas
Yes, that’s fair. It releases over -- it’s an annual --- the RBC is an annual calc. and so what we are providing are only quarterly estimates of that annual calc. So it smoothes across, that 20 points smoothes across a two-year period.

Farquhar Murray - Autonomous - Analyst
Okay. Great, thanks.

Operator
Thank you. Your next question comes from Lemer Salah from SNS Securities. Please go ahead.
Lemer Salah - SNS Securities - Analyst

Good morning gentlemen. Just one question from my side. I was just wondering whether you're going to give us a split between the fee-based earnings and the spread-based earnings. It seems that the fee-based earnings have deteriorated on a quarterly basis so --

Jan Nooitgedagt - Aegon NV - CFO

If you look -- I think we have given you the slide about the percentage of our fee-based earnings, which is 29% and that's year to date. And of course this also has, the impact of less spread business has led also to the 29%. But I don't think that this is an increase in percentage. It was --

Darryl Button - Aegon NV - CFO, Americas

No, the percentage has remained relatively stable and that is reflecting that although we're seeing somewhat lower fee earnings at the same time also the spread earnings particularly on the fixed annuities side are coming down. And so the percentage has been relatively stable over the last couple of quarters.

Lemer Salah - SNS Securities - Analyst

Okay. Thanks.

Operator

Thank you. The next question comes from William Elderkin from Societe Generale. Please go ahead, sir.

William Elderkin - Societe Generale - Analyst

Good morning everybody. Two questions please. First of all, if we assume current interest rates, current equity market levels, volatility and so on remains roughly as they are, does the third quarter underlying earnings reported, if we take out the mortality gain, provide a reasonable guide as to your likely earnings base? That's the first question.

And then secondly, could you just give us a general update as your sense in terms of the likely performance of your US corporate credit, structured credit portfolio and possible trajectory in terms of impairments from here?

Jan Nooitgedagt - Aegon NV - CFO

Yes. I think you are right if you exclude the mortality assumption changes then that gives you a good picture of the result of the US business. And maybe, Darryl, you can elaborate a little bit more on that and the other question as well?

Darryl Button - Aegon NV - CFO, Americas

Yes, I think so. There was some market impacts in the underlying earnings as well. And if we go sideways some of those impacts won't be there so if you talk about removing the mortality net of those market impacts then, yes, I think probably that is a good indication if we move sideways from here.
I think the second question was on structured securities, probably I think corporate credit, structured credit impairments. Impairment side of the US really coming from the residential mortgage-backed securities, that’s where we’ve been seeing the impairments over the last couple of quarters. We do see that trending down over time. It’s something that we continue to watch closely. A lot of the impairment in the third quarter was actually concentrated in one RMBS security, I think 75m of our 100m was in one security. It’s -- we’re starting to see the light at the end of the tunnel and I would say we’re just cautiously optimistic there.

William Elderkin - Societe Generale - Analyst

Could you make a similar comment in terms of the US corporate credit portfolio?

Darryl Button - Aegon NV - CFO, Americas

The US corporate -- sorry, maybe I misinterpreted your question. It’s actually been performing quite well and the impairments actually off the corporate credit portfolio for the last quarters have been minimal. And I don’t really see any -- even though spreads have widened here as of late and obviously there’s stress in the system, I don’t really see that up-ticking in any material way.

Jan Nooitgedagt - Aegon NV - CFO

And I think across sectors we’ve seen market prices go up except maybe for banks, but all other sectors have been performing quite well.

William Elderkin - Societe Generale - Analyst

Great. Thank you.

Operator

You have a follow-up question from Farooq Hanif from Morgan Stanley. Please go ahead.

Farooq Hanif - Morgan Stanley - Analyst

Hi there. Apologies again for taking so much of your time. I’ve just got some further questions if that’s alright. Firstly, your variable annuity policyholder behavior charge of EUR13m, does that conclude your check-up assumptions for VAs this year? That’s question one.

Question two is can you just give us a number of your exposure to Hungarian mortgages -- sorry, the cross-FX mortgages? Just wanted to -- I wasn’t sure whether you’d given that number.

And the last question is what exact hedging are you doing for long-term interest rates at universal life? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Farooq, thank you for your questions. The first is yes.
Farooq Hanif - Morgan Stanley - Analyst
Yes, you concluded the VAs. Yes, okay.

Jan Nooitgedagt - Aegon NV - CFO
And the third was -- are you asking for the number of the --

Farooq Hanif - Morgan Stanley - Analyst
Yes, the size of the portfolio or whatever you think is useful that you can give us.

Jan Nooitgedagt - Aegon NV - CFO
The total size of the portfolio was EUR300m -- what is it? EUR360m.

Farooq Hanif - Morgan Stanley - Analyst
Yes.

Jan Nooitgedagt - Aegon NV - CFO
And what do you want to know about the --

Farooq Hanif - Morgan Stanley - Analyst
That's fine. So the Swiss franc mortgages are EUR360m book, basically. Fine, that's all I wanted to know. And interest rate hedging in UL?

Jan Nooitgedagt - Aegon NV - CFO
Darryl?

Darryl Button - Aegon NV - CFO, Americas
Yes, Farooq. I'll take that one. For the most part our ALM behind our UL has been, as we discussed earlier, long duration bonds so we've generally gone after the duration in the cash markets there. We do have some forward starting swap programs on from a low interest rate protection ALM perspective, but those tend to be more on our long-tailed structured settlements and long-term care portfolios. So in the UL portfolio specifically it's long cash bonds.

Farooq Hanif - Morgan Stanley - Analyst
Right. And you're able to get that obviously in the US market so you don't have to use swaps for your vanilla UL portfolio.
Darryl Button - Aegon NV - CFO, Americas
Yes. It's all US-dollar-denominated portfolio.

Farooq Hanif - Morgan Stanley - Analyst
Okay. That's perfect. Thank you.

Operator
We have a further follow-up question from Jan Willem Weidema from ABN Amro. Please go ahead, sir.

Jan Willem Weidema - ABN Amro - Analyst
Yes, sorry, one final question. Could you give us the IGD ratio for the main CEE countries?

Jan Nooitgedagt - Aegon NV - CFO
I don't have that number here in front of me.

Michiel van Katwijk - Aegon NV - EVP
No, we do not tend to disclose all details about IGD ratios. IGD ratios in the CEE are healthy, but we do not provide detail on those.

Jan Willem Weidema - ABN Amro - Analyst
Maybe I can ask the question differently. Did you offer in dividend this quarter or the last three quarters from CEE to the holding?

Michiel van Katwijk - Aegon NV - EVP
Actually from Central and Eastern Europe has been the only region that has consistently paid dividends throughout the crisis. So from that perspective it has been contributing very healthy.

Jan Nooitgedagt - Aegon NV - CFO
They have always paid us dividends.

Jan Willem Weidema - ABN Amro - Analyst
Okay, perfect. Thank you.

Operator
Thank you sir. That was the final question. Please continue with any further comments you wish to make.
Okay, Thank you very much and I hope to see you at our conference in December. Thank you.

Operator

That concludes the Aegon third quarter 2011 results conference call. Thank you for participating. You may now disconnect.