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TRANSCRIPT

AGN.AS - Q1 2012 AEGON NV Earnings Conference Call

EVENT DATE/TIME: MAY 10, 2012 / 07:00AM GMT

OVERVIEW:

Co. reported 1Q12 total sales of EUR1.8b.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for holding. Welcome to the Aegon first quarter 2012 results and embedded value 2011 report. (Operator Instructions). I will now hand the conference over to Mr. Jan Nooitgedagt. Please go ahead sir.

Jan Nooitgedagt - Aegon NV - CFO

Good morning. Thank you for joining our call to review Aegon's first quarter 2012 results. Also joining me are Michiel van Katwijk, Executive Vice President, Darryl Button, 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. As always we look forward to your questions after the presentation.

Across our businesses we are continuing to implement our plans to improve Aegon's responsiveness to the market opportunities. During previous calls and our one-on-one discussions we have explained how we see the opportunities for our core businesses in our various markets and how we are aligning our organization to capture these. We believe that Aegon's first quarter results confirm the strengths of our business and franchise and that the actions being pursued by management are the right ones to succeed in this new environment.

As you are well aware we have focused very much on reducing cost across our businesses over the past few years. Our success in this regard combined with improved financial markets contributed to the higher level of earnings for the first quarter. A clear indication of the continued strengths of our franchise was the high level of deposits in the first quarter related to our successful variable annuity and pension businesses in the United States. With strong inflows, our third-party asset management business also contributed to significant increase. And finally, Aegon's embedded value which we also provide along with our first quarter results remained level at EUR10.43 per common share.

Here on slide three, let me briefly touch on our progress in executing our strategy, given our ambitions for Aegon going forward. 2011 was a year devoted to implementing our restructuring programs in the UK and in the Netherlands and divesting units that were no longer core to our business. The aim has been to refocus our businesses and ensure that they can be responsive to the significant changes occurring in these markets.



Central to this program has been the need to reduce operating expenses and identify operational efficiencies. At the same time we are also making critical investments in our businesses. New initiatives such as our new platform in the UK as well as our new online banking proposition in the Netherlands are examples of how we are responding to the new environment and capturing opportunities. Given the persistent low interest rate environment, it has also been necessary to closely review our product portfolio and adjust our products to reflect the current market. Ensuring that they offer good value for both our customers and our Company continues to be among our top priorities.

Here on slide four we provide you a quick overview of our progress toward our 2015 financial targets. I will address these in more detail later on.

Turning now to underlying earnings on slide five, clearly the growth of our business, the expense savings being realized in our businesses and the more favorable market conditions were the main contributors to the increase.

Earnings in the Americas were mainly impacted by lower fixed annuity earnings and adverse mortality although this was partly offset by higher fee-based earnings. Growing fee-based earnings is, as you know, a key strategic priority.

Results in the Netherlands were resilient as higher claims on disability products were offset by a higher contribution from mortgages. We expect the negative experience on disability products to continue throughout the year.

In the UK earnings more than doubled as a result of our successful cost reduction program and the fact that we dealt with the restructuring and legacy charges in 2011.

Earnings in our new markets were a strong contributor to our overall results, mainly driven by the progress of our businesses in Asia and asset management, although at higher levels than we would expect.

And again with regard to our successful shift to fee-generating business, we were pleased to reach our target of 35% of underlying earnings coming from fee-based business versus spread-based business, well ahead of our 2015 timeline. The strong underlying earnings for the quarter put us in a sound position to deliver on both our earnings growth and the return on equity target as well.

Turning now to net income on slide six. The strong increase in net income benefited primarily from positive fair value items. These positive results related mainly to alternative asset performance in the Americas, the guarantee portfolio in the Netherlands and derivatives in the holding. As I mentioned at the start, impairments continued their downward trend decreasing to the lowest level in four years. The particularly strong net income was also due to a low tax rate. We experienced a positive impact on income tax as a result of benefits related to the run-off of institutional spread-based activities in Ireland as well as a settlement with the tax authorities in the Netherlands and a reduction in the UK corporate tax rates.

Let me now turn to our continued focus on reducing our overall cost base. As you can see on slide seven we have achieved a considerable level of cost savings, particularly in our established markets. Despite our progress in this key area of focus, we will pursue additional cost savings and operational efficiencies as part of how we manage our day-to-day business.

Turning now to our business in the Netherlands, slide eight. Last September, as you know, we announced an ambitious program to reduce our overall cost base from the 2010 level by EUR100m by 2013. Since then we have implemented EUR49m of cost reductions and are well on track to achieve our EUR100m target. The aim is to create a more streamlined and responsive organization and to counter the effects of persistent margin pressure. We will continue to update you on our progress during the course of the year.

On slide nine, as announced previously, with these first quarter results, we are publishing our market-consistent value of new business and we provide you with some historical data as well. We find market-consistent value of new business important as a tool to measure if our new business creates value. In order to ensure management is focused on the right drivers of value, we have made this measure a factor in management remuneration as well.

Market-consistent value of new business for the quarter improved slightly as a result of our focus on fee-based business and our pricing discipline. In December we adjusted our pricing for variable annuities and more recently have adjusted our universal life secondary guarantee products to offset the negative effect of lower interest rates on new business profitability. The impact during the third and fourth quarter of last year clearly shows the effects of product re-pricing is clearly reflected in the increase over the fourth quarter of 2011.

Let me now turn to sales for the quarter on slide 10. We were especially pleased by EUR1.8b in total sales, an increase of 25%. A particular success this quarter was the 50% increase in deposits. It mainly related to our pension business in the United States and very strong retail and institutional inflows for Aegon Asset Management. The decline in new life sales was mostly due to lower sales in the Netherlands and the UK, which offset the solid growth in new life sales in the Americas. And finally we also experienced strong growth in accident and health sales.



On slide 11 I would like to spend a few moments highlighting what we believe to be the competitive advantages of our US pension business, which again demonstrated the strong growth potential with a 21% increase in gross deposits or \$6.2b. The cornerstone of our strategy in this core business is our ability to differentiate from the competition through technology, specialization and service. Our investments in technology are enabling us to offer consistently high service levels to our customers. The various awards related to customer satisfaction which our business received confirms that we are outpacing the competition according to the essential measure.

By focusing on a very specific market, the 403(b) market and the small to large case market, avoiding the very competitive jumbo market, we are better able to preserve our margins. The 403(b) market is an attractive niche. We focus on both healthcare and higher educational institutions where Aegon is a top three provider.

The strong results of our pension business is a direct result of bringing innovative products to the market and a consistent focus on costs. As the graphs indicate, over the past three years we have doubled the assets and more than doubled earnings from this business. Like many of our peers we see downward pressure on fees. However, because of previous investments in IT, our expense management actions and benefits of scale, we have been able to maintain margins. Margins in the pensions business amounted to 24% -- 24 basis points for the first quarter. We believe our approach, which has led to these very strong results, is the right one and is one that we'll continue to pursue.

A bit more detail on our variable annuity business here on slide 12. The VA market has seen the departure of downsizing quite a number of competitors. As a result this market has become more specialized. Our strategy of product innovation and growing non-traditional distribution channels is paying off. Despite the re-pricing in December and the fact that Q1 is typically the weakest quarter of the years, sales increased 3% at a time when the overall market declined by 6%. In the first quarter margins for variable annuities were 88 basis points, above our medium term expected margin of 80 basis points. This was partly as a result of strong equity markets over the last two quarters.

On slide 13, our US life and protection sales also achieved strong momentum with a 20% increase in the quarter. Our indexed universal life product performed especially well in terms of both the level of sales and profitability. The product was successfully launched in the brokerage channel and its features clearly respond to customer demands. Also our whole life product had strong appeal particularly in the senior market with a 9% increase in sales. Accident and health sales benefit from the high demand for travel insurance as well as the successful introduction of new healthcare prescription coverage.

Here on slide 14 we provide you further detail on our Dutch mortgage business, given the increasing focus on mortgages lately. Although mortgage production in Q1 was not as strong as in the comparable quarter last year, it continues to be a business with good margins. The graph makes clear that Aegon has been successful in gaining market share which we believe is due to our focus on delivering a consistently high level of service in our fully automated processes. On top of that some foreign players have left the market and some of the traditional providers are restricted in their funding capabilities.

Given the nature of Aegon's life insurance book with long term liabilities, the mortgage product is a good fit, with 80% of new production being guaranteed by the government.

Turning now on slide 15 to Aegon's progress in its new markets, Asia and Asset Management were particularly strong contributors to the growth in this quarter, however, at levels we do not see as sustainable for the coming quarters. Asset Management enjoyed higher performance fees while those businesses also benefited from exceptional low expense levels this quarter. The rollout of our non-life household product in Central and Eastern Europe is on track. Our asset management business has been able to substantially increase deposits due to solid performance in both the retail and institutional segments. In Japan we have seen that improved tailoring of our VA product is also paying off.

As in all of our markets distribution is an important differentiator. For example our increased focus on Bancassurance in China led to higher production and our further expansion of distribution relationships in Japan also added to our sales growth. These are just a few examples of our progress in our newer markets where we are investing for the future.

On slide 16, Aegon's capital position at the end of the first quarter. Our capital position continues to be strong with an IGD ratio of over 200%. And given the fact that regulatory capital requirements ultimately determine whatever capital can be upstreamed to the holding, we will continue to focus on regulatory capital ratios. As we have communicated to you often, in the current uncertain environment, we believe that maintaining a strong capital buffer is not only prudent but essential.

You will remember that one of our key financial targets is to increase operational free cash flows by 30% by 2015 from the normalized 2010 level of EUR1b to EUR1.2b. During the fourth quarter operational free cash flows excluding market totaled EUR405m, which puts us well on track -- that is during the first quarter operational free cash flows excluding market impact totaled EUR405m, which puts us well on track to achieve our 2015 target.

On slide 18 we provide you Aegon's capital base ratio which amounted to 74.2% at the end of the quarter. As you are aware our target is to achieve a capital base ratio of at least 75% by the end of 2012 and we are on track to deliver accordingly.



Turning now to our embedded value results for 2011, total embedded value increased 10% to almost EUR21b whereas embedded value per share remained stable at EUR10.42. The number of shares outstanding increased after our equity issue in February of last year. Embedded value life insurance reduced by 7% due to the divestments of two business units and unfavorable market conditions in 2011 as well as the lower long term interest rate level. On slide 20, the 7% decrease in embedded value for Aegon's life insurance business was mainly due to capital upstreamed to the holding and other activities of EUR3.4b. And this upstreamed capital was partly used for the final repayment to the Dutch state last June.

In general, the positive performance of our in-force portfolio was the result of cost savings, better than expected mortality, better persistency and strengthening of currencies against the euro. Aegon's 2011 embedded value report was also our last. We have decided to no longer publish traditional embedded value and value of new business. We have already replaced value of new business by market-consistent value of new business and we will replace the full year traditional embedded value report with information based on the new regulatory regime, Solvency II.

Before turning to your questions, let me summarize. The strengths of Aegon's business was again evident during the first quarter. Improved financial markets combined with our successful program to reduce costs supported the higher level of earnings. Our pension business in the US again achieved strong results as did our third-party Asset Management business. We delivered on our key strategic objective of generating a greater proportion of earnings from fee-based business. And finally, the solid increases in sales and earnings as well as our continued strong capital position make clear to us and hopefully to you that Aegon is on the right track.

Thank you for your continued interest in Aegon. And before we take your questions let me remind you that we will host a analysts and investor conference on June 19 and 20 in London. Both Alex Wynaendts and I along with senior management hope to see you there. With that we welcome your questions.

QUESTION AND ANSWER

Operator

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

Farooq Hanif - Morgan Stanley - Analyst

Hi there. Thanks for taking my question. Just a few questions. Firstly, could you remind us how often you intend to review your interest rate and the investment yield assumption, those that you presented at the Capital Markets Day?

And can you confirm that your US general account liabilities are calculated off these assumptions as well? So if you could just let us know about timing.

And also in your embedded value, if you made an assumption that you didn't get an improvement, a grading up improvement in yield, let's say, in the US to 4.5%, what would the quantitative impact in the embedded value be?

Last question, what were the market-related effects boosting the cash flow in this quarter?

And is EUR405m the new run-rate this quarter or would you expect there to be improvements? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Farooq, thank you for all your questions. We always look very carefully if you ask about the interest rates and the sensitivity. But I'd like to refer you to the interest sensitivity we have given based on Q3, the end of Q3 last year. And I don't feel that these sensitivities based on the level of September 30 will be different. And slide 26, there you see what the sensitivities are on the underlying earnings and on equity.

Farooq Hanif - Morgan Stanley - Analyst

Okay. So just really asking the question a different way, you reduced your assumption for interest rates last year, is that something you can do on an annual basis?



Jan Nooitgedagt - Aegon NV - CFO

We have no reason at this moment in time to change our assumptions. We have done that last year and also have taken the effect in our IFRS accounts. And we will do that on a yearly basis and if really necessary on a quarterly basis. But we have no reason to make changes in that assumptions in this quarter. We don't see reasons to do that.

Farooq Hanif - Morgan Stanley - Analyst

Okay, thanks. And then on the cash flow, is EUR400m a good guide for the run-rate going forward?

Jan Nooitgedagt - Aegon NV - CFO

We have, as you have seen in the slides, we have given you that number as a normalized cash flow. So I think the answer to your question is yes.

Michiel van Katwijk - Aegon NV - EVP, Finance

You should take into account, Farooq -- hi, it's Michiel -- that the effect of low impairments flows through in here. And the effect of low, of the low tax rate that we're experiencing this quarter also flows through into that normalized level. So it is a fair level, but may be a little bit on the toppish side as a result generally of the tax effect this quarter.

Farooq Hanif - Morgan Stanley - Analyst

Okay. Thank you very much.

Operator

Thank you. The next question is from Hans Pluijgers from Cheuvreux. Please go ahead.

Hans Pluijgers - Cheuvreux - Analyst

Yes, good morning gentlemen. A few questions from my side. First of all, if I understood you well, on the expense level in the new markets you said it was at a relatively low level. Could you give us some feeling on the impact and what we expect going forwards?

Secondly, on the US sales, whether there's any impact from relatively big new pension contracts. Could you give us some feeling for that and what's the pipeline in the pension market?

And the last question was on upstream of the capital. You gave an impact of 30 basis points in Q1 on your core capital ratio. Could you give maybe some feeling on the ability to upstream further more in the coming quarters especially as it could be, let's say, an important factor to reach your 75%? Could you give some feeling what you believe you can still upstream to the holding to reach that level of 75%?

Jan Nooitgedagt - Aegon NV - CFO

Yes, thank you Hans for your questions. The first questions about the expenses in the new markets, as we have said in this quarter, I think it's a more a phasing issue in the expenses. So we are prudent for the rest of the year that we feel that the expenses in the new markets are lower than normal. So that's the reason we have said that we might expect that the level, normalized level is a little bit higher than (inaudible). And we should also take into account a big part of the new markets is for us a growth market so we will keep investing in growth, where there also, there is a need for higher expenses as well there.



If we talk about the US pension contracts, I'm looking to Darryl. Darryl maybe you can give here more an answer about what's in the pipeline.

Darryl Button - Aegon NV - CFO, Americas

Yes sure, I'd be happy to. Hi Hans. It's Darryl. A couple of things. First of all, the high deposit level that we had this quarter really is a function of the written sales in the third quarter which were quite strong and so we're seeing the assets move over here in the first quarter. That's not unusual from a seasonality perspective in the pensions business.

You asked if there was any large cases in there. Not really. Actually quite the opposite. We're actually seeing our number of case counts is up and hence our average premium per case is actually down a little bit. So there aren't any one, particular large, one or two large cases driving that number. It's a number of smaller cases.

So in terms of the pipeline, it looks pretty good. The pipeline looks pretty good for the rest of the year. As I mentioned, it's not unusual for deposit levels to be high early in the year. But in terms of written sales, which will drive deposits down the road, the pipeline looks pretty good.

Jan Nooitgedagt - Aegon NV - CFO

And your last question, Hans, about the capital ratios and the dividend upstreamed to the holding, what you see in this quarter is that we had relatively low dividend amounts upstreamed to the holding. So for the rest of the year we expect more dividends will be upstreamed to the holding, which is a normal pattern if compared with previous years.

Hans Pluijgers - Cheuvreux - Analyst

Okay. Thank you.

Operator

Thank you. The next question is from William Hawkins from KBW. Please go ahead.

William Hawkins - Keefe, Bruyette & Woods - Analyst

Hello. Thank you very much. Three questions I hope quickly. Could you give us any indication of what the mortgage profit contribution was to the EUR56m you made in Dutch life first of all?

Secondly, could you elaborate a little bit on the changes that you've made to the secondary guarantees in your universal life business and maybe just remind us of the percentage of reserves with those secondary guarantees currently on the balance sheet?

And then thirdly, I think I understood what you said Jan but just to clarify. The 88 basis points in variable annuities, you mentioned strong equity markets, but to the extent that they've just led to higher asset bases, are you still implying that 80 basis points is what we should be thinking about or because the asset base is higher could we be thinking about a higher sustainable margin? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Thank you William for your questions. Yes, we do not give a separate result on our mortgages, which is I think also because the mortgage is one of our asset classes, an important class in the Netherlands, so it is part of our life book. So there I can only say that the mortgage is still very attractive for us. We have a good margin on our mortgage book. But I don't -- can't give you a specific result on our mortgages.

The second question was secondary guarantees. Darryl, yes, if you cover that.

Darryl Button - Aegon NV - CFO, Americas



Yes, I'll take that. I think it was a two-part question, what have we done in terms of pricing and also how many reserves still on the book. Yes, in terms of pricing it's basically been premium levels that we've been driving up and particularly on the secondary guarantee product which is more influenced by the low rate environment. It's a situation where we continue to monitor the marketplace. We are in a number of -- I would say in the products that are more affected by the low interest rate environment. We're pushing through rate increases that ticks down the relative competitiveness of our product. At the end of the day that's the strategy there.

In terms of the reserves on the book I'm not sure I can actually give you that number. There's about 30b of total life reserves sitting on the US. Probably about two-thirds of that is universal life. What I don't have is the split of what is secondary guarantee versus basic universal life. So I'll just have someone from Investor Relations follow up with you.

Jan Nooitgedagt - Aegon NV - CFO

And then on the last question, maybe Darryl you could also take that. The 80 basis points, is that, can it be seen as the normalized basis points instead of the 88 for this quarter?

Darryl Button - Aegon NV - CFO, Americas

On variable annuities?

Jan Nooitgedagt - Aegon NV - CFO

On the variable annuities.

Darryl Button - Aegon NV - CFO, Americas

Yes, so when we put the 80 basis points out we knew we had some margin expansion in front of us as we looked across the medium term in the plan. The short answer is a couple of markets have (inaudible) equity market performance over the last couple of quarters have essentially moved us there quicker than we thought. So I actually think there is margin expansion from the 80 basis points we put out there before and we are gravitating more to the 90 basis points level sooner than what we anticipated earlier. Obviously that's somewhat market dependent.

William Hawkins - Keefe, Bruyette & Woods - Analyst

Great. Thank you very much.

Operator

Thank you. The next question is from Robin Buckley from Deutsche Bank. Please go ahead.

Robin Buckley - Deutsche Bank - Analyst

Yes, good morning. Just a few questions. First of all, just on the US on the life and protection business, could you perhaps just talk around why the results there seem a little bit weaker certainly than I've been expecting. And I think you reported \$128m and maybe there was mortality charge in that and some corporate expense saving cost was in that, but it seems a little bit weaker. So is that just universal life impacting there?

Second question is just related to the ratio of the 35% of your total earnings that you're now getting from the fee business, which I think is your 2015 target. I guess the question is do you see that as a sustainable level for the next few quarters, having reached that 2015 target, and should we expect this to expand further in the coming quarters or will that 35% stay relatively static.



And the final question is just on capital and your comments that Solvency ratio will influence how much cash could be upstreamed to the holding company. Could you just elaborate on that in a little bit more detail just in terms of where you -- what sort of levels of Solvency will allow you to upstream further capital and where it becomes a binding constraint? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Yes, I think the life and protection, we were talking about the mortality and the expenses. Maybe Darryl you could say a little bit more about that.

Darryl Button - Aegon NV - CFO, Americas

Yes sure. First of all I agree with you that the life results were weak this quarter. It's not unusual for us to start out with a weak first quarter in mortality and finish the year strong. That's been the case for the last three or four years in row. In 2011 our aggregate mortality was well above expectations but in the first quarter we were about 10m soft. The first quarter this quarter we were another 16m soft on that. So we're about 25m below what I would expect going forward. I expect that is a seasonal blip and I look come back the remainder of the year.

Jan Nooitgedagt - Aegon NV - CFO

And then your second question about the ratio, I think that it is wise to assume that the ratio of 35% that will continue in, at least in the coming year. It's difficult to make a prediction, but the 35% is realistic I think for the rest of the year.

Robin Buckley - Deutsche Bank - Analyst

But should we be expecting that to move up by 2015? Is that 35% target that you've got for 2015 a little -- is there room for that to move up?

Jan Nooitgedagt - Aegon NV - CFO

I think it's too early to say anything more about that.

Michiel van Katwijk - Aegon NV - EVP, Finance

Yes, but we're not changing our strategic focus on growing our fee business, so I think it's a fair assumption. Although you should keep in mind Robin that in the first quarter we had somewhat higher earnings particularly on the Asset Management business and so although, as Jan said, we would expect it to remain around 35% for the remainder of the year, we would looking out a little bit further for to see that grow further.

Robin Buckley - Deutsche Bank - Analyst

Okay.

Jan Nooitgedagt - Aegon NV - CFO

Your question about, Robin, about the Solvency ratios, I think that what I also said earlier is it is important that, for upstreaming cash that we have to take into account the regulatory and statutory requirements. And that means for the European business units, Solvency II requirements and that means also for the US NAIC requirements. I think that is our message. For that reason we are more managing our business on IGD ratios for looking at potential cash flow to the holding.

Robin Buckley - Deutsche Bank - Analyst

Okay. Are you able to give any indication of what level it becomes a binding constraint where --



Jan Nooitgedagt - Aegon NV - CFO

I would like to do that especially at the end of this year when we get more clearance about the Solvency II. As you know this Solvency II, this for us, if you look at our business units especially important is that if you look at the UK, Netherlands and Spain. And that as you know we are also waiting for last developments to understand more carefully and clearly how we have to calculate our Solvency II numbers. But that is what -- why we manage our business if you look at the cash flows to the holdings on our statutory and regulatory capital.

Robin Buckley - Deutsche Bank - Analyst

Okay. Thank you.

Operator

Thank you. The next question is from Ashik Mussaddi from JP Morgan. Please go ahead.

Ashik Mussaddi - JP Morgan - Analyst

Hi, thank you. Ashik Mussaddi from JP Morgan. I have three questions. The first one is in the UK now, now that your cost savings are done, so first is should we expect some more cost savings target here?

And can you remind us of your ROE targets in the UK and what do you expect in the UK going forward?

And just one more question. So you have given us the MCEV for the new business value on a market-consistent basis. Why don't you give us the embedded value on market-consistent basis or at least some color on how we should think about this? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Thank you for your questions. The cost savings, clearly we have achieved the target what we have said last year, the year before we want to achieve at the end of 2011.

We have given you the ROE for the UK. Are we pleased with the ROE? No. But I think what's important is that the business is now restructured. We are investing in new initiatives, new opportunities, new platforms and that we manage that very carefully. I also believe that we will manage our cost level in the coming years as well very carefully. And the target for the UK remains as we have said before 8% return on capital, by the end of 2015, I should add.

Ashik Mussaddi - JP Morgan - Analyst

Has there been any change in the strategy with respect to selling that off or does it still remain your core -- is the UK still your core, [the Scottish] business?

Jan Nooitgedagt - Aegon NV - CFO

Yes, I can confirm that there is no change in the strategy for the UK and we have a long-term interest in the UK.

Ashik Mussaddi - JP Morgan - Analyst

Thank you. And the question on MCEV off new business.

Jan Nooitgedagt - Aegon NV - CFO

We have, as I said, for the last year we have disclosed our embedded value and we will give you market-consistent numbers about our capital at the end of the year.



Ashik Mussaddi - JP Morgan - Analyst

You mean the MCEV for --

Jan Nooitgedagt - Aegon NV - CFO

Based on Solvency II regulations and that is what we will do again.

Ashik Mussaddi - JP Morgan - Analyst

Okay. Thank you.

Operator

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

Nick Holmes - Nomura - Analyst

Hi there. Thank you very much. Just a couple of question. Firstly, looking at variable annuities, I wondered if you could update us on the competitive environment. And in particular I'm asking this question because Jackson said yesterday that they'd launched a no guarantee VA product. And I know that this is your niche, if you like, and I wondered if that was a threat to you.

And then secondly, looking at impairments wanted to ask do you think that the current reduced level is sustainable and how worried are you that there could be a negative surprise coming from the RMBS book which is the source of what impairments you've got basically? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Thanks Nick. I think the first question clearly Darryl, can you give some color on variable annuities.

Darryl Button - Aegon NV - CFO, Americas

Yes. Hi Nick. It's Darryl. So what we've done, and I can comment on what we've done and I can't really comment on what Jackson is doing, but the interest rates dropped at the end of the third quarter very significantly and really it's just math that drives the hedge costs up for anybody that's running disciplined hedge programs. So we were out in December and changed our product. We lowered guarantees. We increased prices. We could curtailed some of the funds that were in behind there. And those are really the three levers that drive guarantee pricing on a VA product.

We did that in December. We were the first in the market to do that. Frankly I was quite pleased with the sales results in the first quarter given the pricing and re-pricing that we did. We were one of the few. Certainly we were the first to get out and do that.

I think with interest rates coming up a little bit in the mid first quarter I think it caused some re-pricing pause in the marketplace. But now with the 10 year treasury back with a 180 handle on it there has to be a wave of re-pricing go through the US VA marketplace. So we're watching that very carefully and looking for that to happen as we go forward. Not surprising to me is that there will be a movement towards less guarantees and/or more fee-based products because the hedge costs simply are higher than where they were certainly six months ago.

So what Jackson are doing and what others are going to do in light of the low interest rate environment is something we're going to watch very closely obviously. That being said, we're well positioned with our strategy. We've been very consistent. We have been educating our advisors. We've been niching the market that we play in terms of what our product will do, what it will do when rate and hedge costs move. And we're going to stick to our strategy.



Nick Holmes - Nomura - Analyst

Okay. Yes, that's a very clear answer. And sorry, on the impairment?

Jan Nooitgedagt - Aegon NV - CFO

Nick, on the impairments what I'd like to state is that this is a confirmation this quarter of a downward trend. It's always difficult to predict this, but I think it's clearly -- under IFRS we take the impairments when we have to take them so I think this is just confirmation that we have a very, very low impairment.

Nick Holmes - Nomura - Analyst

Sure. And maybe if Darryl could say just a word about the RMBS book. Is that, the prospects there, looking reasonable?

Darryl Button - Aegon NV - CFO, Americas

That's where impairments that we are getting are coming from the residential mortgage book in the US. Yes, they are. The -- I would agree with what Jan said in terms of confirming the trend. We've been seeing it's coming for a while and we really don't see any real concerns on the corporate side at all. So the impairments that we are having are still coming from the RMBS book, but I don't see that deteriorating from here in any significant way, not in the current market anyway.

Nick Holmes - Nomura - Analyst

That's great. Thank you very much.

Operator

Thank you. The next question is from Toby Langley from Barclays. Please go ahead.

Toby Langley - Barclays Capital - Analyst

Good morning everybody. It's Toby Langley calling from Barclays. I've got a follow-up question on variable annuities and hedging costs, one on fixed annuities and then also on dividends. On variable annuities, Darryl, you mentioned that hedging costs had gone up and also made the point that you raised fees at the end of last year. How much did you -- how much fees go up? And did that reflect the increase in hedging costs in your opinion? Or maybe put another way, how much have hedging costs gone up?

Secondly, on fixed annuities can you comment on the speed of run-off of that side of the business or the emphasis, depending on how you'd like to term it? And whether or not that's been sensitive to the interest rate movements that we've seen in the last six to eight weeks? Are things going as you expected there?

And then finally, on dividends, very strong cash handlers today. How do you -- how would you like to position those results to investors? If you were considering Aegon as an emerging dividend story, can you remind us what your position is on the dividend from here?

Jan Nooitgedagt - Aegon NV - CFO

Shall we start with the question about the VA and the hedging cost, Darryl?

Darryl Button - Aegon NV - CFO, Americas

Yes, actually the VA and the (multiple speakers) question. It's difficult to give you a number in terms of the hedge costs. I would say, material. Probably the best thing I can, in answer to you, is that given that the current rate environment we have got our VA products re-priced to a breakeven status, but we haven't got it reaching our



total target profit margins yet. So we're not all the way to where we want to be with our current products. And we were one of the few and the first to move in the market. So there is some fairly substantial re-pricing to come in the US VA market and we're going to watch that from here. So we're breaking even on the product, but we're not hitting our target profit margins yet so that's where we stand with our product.

Toby Langley - Barclays Capital - Analyst

When you say breakeven, is that on the guarantee or is that on the whole composite fee structure?

Darryl Button - Aegon NV - CFO, Americas

On the product as a whole, that's how we look at it. You have to really look at all pieces together.

On the fixed annuity run-off you can see it in our stats that we've been running about 600m to 800m a quarter of outflows. We're a little bit on the lower end of that range this quarter. It is a little bit rate dependent. Certainly if rates were higher or moved significantly higher faster we would see a faster outflow. As a result with the low rate environment we're in we see pretty consistent 800m negative a quarter and that's consistent with about a 9% (inaudible) rate.

Toby Langley - Barclays Capital - Analyst

And was there any short-term sensitivity to the volatility in rates in March and April?

Darryl Button - Aegon NV - CFO, Americas

No, it wasn't enough. Rates are low enough that that uptick in rates we had wasn't enough to really cause a paradigm shift in terms of behavior, people flocking to the 30 to 40 basis points extra yield that we got for a couple of months. We really didn't see any effect there.

Toby Langley - Barclays Capital - Analyst

Okay.

Jan Nooitgedagt - Aegon NV - CFO

Dividends, so our dividend policy is quite clear. We will pay dividend based on the strength of our capital, our capital position. But more important is the development of operational free cash flow and that is what we have said also earlier. We will continue in executing on that policy. Now depending on the development of our operational free cash flow we're also able to pay dividend. And of course it's also important to keep in mind the strength of our capital and also that we start this year with EUR0.10 per share based on the results of the second half of last year.

Toby Langley - Barclays Capital - Analyst

Thank you.

Operator

The next question is from William Elderkin from SocGen. Please go ahead.

William Elderkin - Societe Generale - Analyst



Good morning everyone. It's William Elderkin from SocGen. Three questions please. First of all, on your Spanish exposures, which you give a nice slide on slide 40, if I were to assume something bad happens to that Spanish exposures I was just wondering the extent to which those sit within any joint venture vehicles and the extent to which any losses may or may not be shared with joint venture partners? That's question number one.

Question number two, could you just elaborate on your comments regarding Solvency II and equivalence particularly given your very large US exposures and the direction of travel of that debate from your perspective?

And finally, in terms of various non-recurring features in the first quarter earnings I think I got the US mortality, Dutch morbidity thing. I'm not sure about the quantum of the effect on the expense side in the Asian business that you alluded to and I was just wondering if you could give us a more precise number there.

Jan Nooitgedagt - Aegon NV - CFO

Thank you. Your first question was about the exposure in Spain. What you have, as you said, on slide 40, you see our share in that exposure of Spain. And this is, if you look at these amounts, they are relatively small if you look at the total of our general account. And they are all valued at market value at the end of March 30 end -- 31 end. And that is also means that potential impairments has been taken into account. And as you know our impairment level is very low. We have no impairments for Spain.

William Elderkin - Societe Generale - Analyst

Sorry, could I just -- what I was getting at is that my understanding was some of your Spanish businesses are effectively joint ventures, which means there is another party sharing the economic interest. And hence if you were to have losses on that Spanish portfolio can I assume some of those losses would be shared with those partners?

Jan Nooitgedagt - Aegon NV - CFO

That's right. But there's 50% of -- this is our share in the joint ventures.

William Elderkin - Societe Generale - Analyst

Okay. So those numbers we see there are of your percentage minority share; it's not the overall 100% total.

Jan Nooitgedagt - Aegon NV - CFO

That's correct.

William Elderkin - Societe Generale - Analyst

Thanks.

Jan Nooitgedagt - Aegon NV - CFO

I lost track of question.

Darryl Button - Aegon NV - CFO, Americas

Solvency II equivalency.

Jan Nooitgedagt - Aegon NV - CFO



What was your second question? Sorry.

William Elderkin - *Societe Generale - Analyst*

Is the -- could you just update us on your thoughts in terms of the way that equivalent debate and discussion is developing and is that as you would hope?

Jan Nooitgedagt - *Aegon NV - CFO*

The -- and maybe Darryl you can give also little bit more, say more about that. What we do know is that the EU and the Americas are talking about the whole framework. It is my understanding and also my belief that most parties work hard to get a transition period and also at the end of the transition period to get the equivalency between US and Europe about Solvency II. It is for us of course very important because the majority of our business is in the United States.

Darryl Button - *Aegon NV - CFO, Americas*

Yes, I guess I would just add I've been involved in the discussions from the US side of things. I think there's an appreciation and understanding that a level playing field is at stake and is an important political issue. And the tone of conversation that I've been witnessing would suggest that there will be some form of agreement and equivalency transitional period to protect that level playing field as we go forward. And that's our working assumption.

Jan Nooitgedagt - *Aegon NV - CFO*

Is this an answer to your question?

William Elderkin - *Societe Generale - Analyst*

Yes, that's very helpful. And just finally on really what's the element of -- number in terms of the additional expenses we might put in our models for the Asian business for the rest of the year?

Jan Nooitgedagt - *Aegon NV - CFO*

That is -- I have not that number in my mind. Maybe you can take contact with Willem van der Berg from IR to get that. I don't know if he wants to give you a number, but at least --

Michiel van Katwijk - *Aegon NV - EVP, Finance*

He will. Willem will contact you.

William Elderkin - *Societe Generale - Analyst*

Thank you.

Operator

Thank you. The next question is from Michael van Wegen from Bank of America. Please go ahead.

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



Good morning guys, Michael van Wegen from Bank of America-Merrill Lynch. I wanted to focus on your investment deals in the US. In line with quite a few of your US peers we've seen at least for your fixed annuity business that your yields are holding up rather well, actually have recovered a lot. Can you talk us a little bit through how you see your yields for both fixed annuities and the universal life book developing over the next quarters?

And what are you doing in terms of where are you putting your new money? And you seem to be re-risking a little bit. Can you talk us a little bit through what you're doing there?

Second question is on the employee costs that were flat in -- employee benefit cost, I should say, that were flat for the US, the 13m. How do you see that going forward? Is this a continuing issue given that interest rates are low? Or is this sort of more one-off situation? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Michael, maybe I can start with and Darryl can add. Especially if we talk about the employee benefit cost, it's more an issue for IFRS-19 I assume that based on the low interest rate at the beginning of the year you have to make your calculations what are your pension costs. So this is more or less fixed for the rest of the year but it can fluctuate over the years. This is very volatile. As always pension costs are volatile because it is based on interest rates assumed at the beginning of the year. And the interest rates were lower this year than last year so you will basically have higher pension cost not only in the US but in the rest of our business as well.

And on the first one then maybe, Darryl, you can elaborate a little bit about the margins/yields.

Darryl Button - Aegon NV - CFO, Americas

Yes, I think in terms of yields, first of all, what we've said in the last couple of quarters is that we have new money yield expectations in the 4% to 4.5% range. And I've been guiding to the bottom end of that last quarter and that's certainly true as we are today. That's what's built into our underlying assumptions and our DAC and our modeling work. We're still getting new money yields in that territory. And I wouldn't say that we're not re-risking the -- I think re-risking would be certainly too strong a term to put on it in terms of credit risk that we're adding to the US portfolio. But we are getting new money average yields somewhere in that 4% range and that keeps it in line with our assumptions.

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

And does that mean that you see indeed a gradual trending down of yield to UL, and fixed annuities, which did 5% plus in the quarter, that that is unsustainably high? Do you think 4.60 is more the level, like Q4?

Darryl Button - Aegon NV - CFO, Americas

Yes, so when you get into the shorter portfolios like the fixed annuities the book yields are already into the high 4s. So there is a trickledown effect that the longer we stay at adding incremental new money yields at 4 against book yields of 4, 4.70, 4.80, the universal life book yields are a little higher; they're up in the 5. But again that portfolio is very, very long. So it takes -- it's a very gradual effect and you need interest rates to stay low for a long period of time for that to come down.

Now that being said, rates have been low for a while and that's some of the headwinds that are already built into the life earnings that we've been experiencing over the last three or four years. As we go forward another one or two years, it's noticeable but it's -- you have to take into account the length of the portfolio. So it trickles down and continues to be a headwind for us the longer rates stay low. Obviously we're combating that by growing our key businesses and the expense control programs that we have in place.

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

Thank you.

Operator

Thank you. And the final question is from Jan Willem Weidema, ABN Amro. Please go ahead.



Jan Willem Weidema - ABN Amro - Analyst

Good morning. Few questions on especially the Dutch business. Can you indicate for the pension business what mortality or longevity impact was this quarter?

And the non-life business, I saw that similar to other insurers you took a hit in the non-life disability business. Could you indicate what you expect here going forward and how would change if unemployment rates go up?

And finally could you give an outlook for the new business in the Group life market? What are you seeing in the pipeline there from pension funds? Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Jan Willem, thank you. First question about the longevity, it is included again in this quarter. And we expect also what we have said last year that until 2012, until the new tables will come out we will include it in our reserving for longevity.

Jan Willem Weidema - ABN Amro - Analyst

Was it around EUR20m for the quarter?

Jan Nooitgedagt - Aegon NV - CFO

I'm not counting it every quarter again, but it is -- it continues to be a substantial amount.

Michiel van Katwijk - Aegon NV - EVP, Finance

Yes, what you have in the tables at the end of last year indicated exactly the same what we already knew so very similar.

Jan Nooitgedagt - Aegon NV - CFO

What we assumed, yes.

Jan Willem Weidema - ABN Amro - Analyst

Right.

Jan Nooitgedagt - Aegon NV - CFO

And the second question about the non-life if I remember well and that has to do with disability, (spoken in Dutch) in Dutch. And we expect that that will -- we have taken measures to reduce the impact but that will for a big part continue the rest of the year. Was that the question or did I miss something?

Jan Willem Weidema - ABN Amro - Analyst

Yes and how would that develop if unemployment rates trend up?

Jan Nooitgedagt - Aegon NV - CFO



That is I think the important question for the whole industry. But you can do two things. You can increase your premiums, but that has not an immediate effect because they are yearly premiums. And you can increase the control on, especially on the use of this insurance. And both things we are executing at this moment in time and continue to do that, but it will have a negative impact on the rest of the year.

Group pensions in the pipeline, was that the last question?

Jan Willem Weidema - *ABN Amro - Analyst*

Yes, correct.

Jan Nooitgedagt - *Aegon NV - CFO*

You know as well that there is a lot in the pipeline. It's more a matter of pricing. And there is a lot of discretion with a lot of targets, opportunities we have, but it also -- it probably -- if interest rates will go up, there will be a lot of additional opportunities to increase our portfolio substantially.

Jan Willem Weidema - *ABN Amro - Analyst*

Okay. Thank you.

Jan Nooitgedagt - *Aegon NV - CFO*

Yes. Thank you and really appreciate all your questions and hope to see you in June at our conference. Thank you very much.

Operator

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

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