Ladies and gentlemen, thank you for holding. Welcome to the Aegon fourth-quarter 2012 results conference call for analysts and investors. (Operator Instructions). I will now hand the conference over to Mr. Alex Wynaendts. Please go ahead, sir.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Good morning and thank you for joining us today for this review of Aegon's fourth-quarter and full-year 2012 results, and today also with me are Jan Nooitgedagt, the CFO, Darryl Button, the Head of our Corporate Financial Center, and of course Willem van den Berg, Head of Investor Relations. Before turning to the presentation, let me remind you to take a moment to review our disclaimer on forward-looking statements, which is at the end of this presentation. We look forward to your questions after the presentation.

As you have seen, we have issued two announcements today. The first of course is our fourth-quarter results. Again our businesses generated strong growth in sales and earnings. At the same time we have maintained a strong capital position and our businesses continue to generate healthy cash flows. This has allowed us to propose an increased final 2012 dividend of EUR0.11 per share. The second announcement is the agreement we have reached with the Vereniging Aegon, also known as the Association, to cancel all of Aegon's preferred shares of which the Association is the sole owner. I would like to first highlight the details of this agreement, before turning to our fourth-quarter results.

I'm now turning to slide three. We believe that we have reached a balanced agreement with the Association to cancel all of Aegon's preferred shares, and in a manner that minimizes the impact on existing common shareholders. This transaction will result in a simplified capital structure for Aegon while enabling the Company to maintain a high-quality capital base on the new European solvency requirements, and at the same time it will allow the Association to substantially reduce its debt. All of the preferred shares will be exchanged for cash and common shares. The value of all preferred shares, which have a book value of EUR2.1b, has been determined at EUR1.1b. The Association has also agreed to give up its preferential status.
The result of the transaction, the number of common shares outstanding will increase by approximately 7%. However, the dilutive effect on earnings per share is limited to 3%, as there will be no preferred dividend payments following the transaction. We recognize the importance of limiting dilution for existing shareholders, and we will take that into account in management actions going forward.

Turning to slide four. And this agreement has clear benefits for Aegon and its stakeholders, as highlighted on this slide. Just to name a few, over the years voting rights of the Association and economic ownership in Aegon have grown apart and these are being brought back in line again. Also no single shareholder will have an economic preferential status, and the ending of the payment of preferred dividend will improve the interest coverage ratio of Aegon. The new capital structure will enable the Company to maintain a high-quality capital base under the new European solvency rules by allowing our hybrid capital to be classified as tier one.

From the perspective of the Association, the agreement allows for substantial reduction of its debt, and although the Association will relinquish its preferred economic status, it maintains a sizable holding of common shareholders in the Company. To maintain its special cause voting rights, a new class of common shares will be created, common shares B. Effectively these shares will replace the existing preferred shares B, which we cancel too. And all in all we therefore believe that this is a balanced outcome for all stakeholders.

Now turning to slide five, here I'd like to give you a bit more detail on the transaction. The preferred shares have a book value of EUR2.1b. This is the amount that the Association paid back to Aegon in 2002. We have agreed on a fair value of the preferred shares of EUR1.1b, which is based on the discounted value of future cash flows. This fair value will be paid in EUR400m of cash, EUR83m of preferred dividends, and the remaining EUR655m is converted into common shares and a new class of shares, common shares B.

The transaction is slightly EPS dilutive at the current low level of the ECB financing rate, which determines the level of the preferred dividend. However, if the ECB financing rate would only be 2% to 3% higher, the effect of the transaction will become EPS neutral, as the preferred dividend would then approximately double from its current level.

Currently our shareholders' equity consists of two elements, common shareholders' equity and equity related to the preferred shares. As shown on the slide, equity related to the preferred shares is effectively transferred to common shareholders' equity. The resulting increase in common shareholders' equity is partly offset by the cash payment by Aegon to the Association of EUR400m. This is important to note, as common shareholders' equity is the basis of the calculation of our return on common shareholders' equity.

Here on slide six you can clearly see the impact of the transaction on our capital position. As I have mentioned earlier, the agreement will result in a simplified capital structure for Aegon while enabling the Company to maintain a high-quality capital base under new European solvency requirements, known as Solvency II.

Before the exchange and under the new Solvency II legislation, the preferred shares would not qualify as Core Tier 1 capital. In addition the existence of these preferred shares effectively pushes our junior perpetual capital securities down to Tier 2. After the exchange preferred shares no longer exist. Consequently our junior perpetual capital securities in this situation remain classified as Tier 1 securities, which improves the overall quality of our capital position under proposed Solvency II legislation.

And here on slide seven we provide you with an overview of the impact of the transaction on various financial metrics. The key factors which cause the change in our ratios after the transaction are of course the use of EUR400m of our excess capital, the fact that there will no longer be preferred shares on which we are required to pay preferred dividends, and the higher level of common shareholders' equity. The transaction is done in such a way that we are able to maintain sufficient buffers in the holding company while maintaining a capital base ratio above 75%. As you can see, the impact on most metrics is limited. Moreover, I would like to reiterate that management is evaluating options to further mitigate the effect of dilution.

I'm turning to slide eight, and as I shared in my introduction, the substantial debt reduction is a key benefit of this transaction for the Association. Aegon will pay EUR400m to the Association and EUR83m in preferred dividends, which will enable the Association to reduce its debt by approximately EUR500m from its current level of approximately EUR1.1b. The remaining debt has been refinanced with a new three-year refinancing facility with a one-year extension option. Should emphasize that there are no covenants in this facility linked to the Aegon share price. The Association was, is and will continue to remain a long-term shareholder committed to acting in the interest of all of Aegon's stakeholders.

As part of the agreement, the Association has agreed to give up its preferential status. I'm now on slide nine. And this means that it will relinquish its preferential rights with regard to dividends and liquidation proceeds. In addition the voting rights of the Association in ordinary course will be reduced from the current 22.1% to approximately 14.9% in line with economic ownership, as shown in the table. However, we have agreed with the Association that they will always maintain their current 32.6% voting rights in case of special cause through the creation of a new class of common shares, common shares B.

So what is the process from here? And we can see that on slide 10. So today a 10-day period of determining the average price on which the preferred shares will be converted into common shares will commence. The precise increase in the number of common shares will depend on the volume-weighted average price of Aegon
So let me now turn to our fourth-quarter results and I'm turning to slide 12. The fourth quarter closes a year during which we have made considerable progress and, as you can see on this slide 12, during 2012 all metrics show a clear improvement compared to 2011. After a year of rebasing and taking a number of steps to realign our businesses we entered a new phase in 2012, one focused on generating strong business performance and growth.

We achieved a high level of sales, demonstrating the strength of our franchise. The higher underlying earnings are the result of business growth, a strong delivery on cost-reduction programs and favorable equity market and currency movements. Our fee-based earnings for the full year now represent 33% of underlying earnings and at the same time our return on equity increased to 7.1% and 8% when excluding the run-off businesses. So rather than going into further detail on our strategic highlights for this year, I would like to focus on our fourth-quarter results in the remainder of this call.

I am now on slide 13. The 29% increase in underlying earnings was a result of solid growth of our business, the turnaround in our UK business, successful delivery on cost-reduction programs, as well as favorable currency and equity market movements. In the Americas higher earnings were driven by growth of the business, partly offset by higher employee incentives and benefit plan expenses.

In the Netherlands higher earnings in life and savings more than offset lower earnings in pensions and non-life. During the quarter, we adjusted reserves to reflect observed mortality, and this resulted in a one-time benefit, offset by an exceptional charge related to administrative backlogs in non-life.

The strong improvement of our UK earnings was mainly driven by our focus to achieve further cost savings, in addition to the non-recurrence of exceptional charges taken in the previous year. The negative effect of adverse persistency in our pension business prolonged the implementation of the retail distribution review provisions and is likely to continue in the first half of 2013.

Earnings from new markets were lower. The continued strong results from Aegon Asset Management were offset by divestment of our joint ventures in Spain and one-offs in Asia. And the holding results improved as a result of the fact that part of holding expenses are now charged to the operating units and cost savings in the holding.

So here on slide 14, you can see that in the fourth quarter, net income was positively impacted by gains on investments. These are mostly the results of asset liability management-driven trading in our portfolio, as well as the book gains on the share of our minority stake in Prisma and the divestment in our joint venture with Banca Civica in Spain. We were pleased to see that impairments remained at a low level, amounting to only EUR58m, which translates into just four basis points for the quarter. Run-off businesses were impacted by the accelerated amortization of intangibles in the life reinsurance line, and this is following increased transfers of clients directly to SCOR, and we do expect to see this acceleration in the first half of 2013 as well.

As you are well aware, and I'm on slide 15, in recent years, we have been pursuing a broad restructuring program in order to sharpen our focus on our core lines of business, significantly reduce our cost base and to create greater efficiency across the organization. Reducing expenses will continue to be a primary focus going forward, and during 2012 we have made good progress to capture costs and operational efficiencies.

As you can see on slide 15, we have achieved EUR188m in cost reductions. These cost reductions, along with the non-recurrence of restructuring charges, led to the 6% lower year-on-year cost base. And I want to make clear here that although reducing costs and pursuing operational efficiencies are an integral part of how we manage our day-to-day business, we're also committed to making the necessary investments to drive business growth going forward, as shown by our investments in the platform that we have launched in the UK and the Netherlands.

Let me now give you some detail, and this is on slide 16, on sales and value of new business generated during the fourth quarter. We are very pleased with the strong level of total sales, which amounted to EUR1.8b. We achieved strong growth of new life sales in many of our markets, most notably in the Netherlands and the UK as a result of strong pension sales. In the Americas, the main drivers of our 29% increase in sales were higher amounts for indexed universal life products, as well as higher sale volumes related to the anticipated discontinuance of certain unprofitable universal life secondary guarantee products.

Gross deposits were 30% higher than last year at EUR9.2b. The main contributors were US retail mutual funds and pension, as well as asset management.

And in general, we continued to experience strong customer demands for our core products and services in each of our markets, a clear reflection of the strength of our franchise. Moreover, our disciplined approach to pricing demonstrates our commitment to selling the right products to the right customers and at the right price, ensuring that it provides value for both our customers and Aegon in the current challenging economic environment and low level of interest rates. The success of this approach is seen in the significant improvement to our value of new business to EUR204m for the quarter.
The strong sales momentum that we have been able to achieve is in large part due to our broad distribution network, and I'm now on slide 17. Expanding into new channels while strengthening existing relationships continues to be a priority and it's clearly showing results.

In the Americas, for example, we have added partners for the distribution of our variable annuity products, broadening the scale and diversity of our distribution network. And as we've previously highlighted, over 20% of our new life sales in the US is a result of distribution added since 2008.

As you know, during 2012, we launched our Workplace Savings and our At Retirement platform in the UK. These platforms have been well received by the market, and now we have strategic agreements in place with most of the leading adviser networks, and we are convinced that this will be beneficial in developing our platform business and expect to further add distribution in the coming months.

In our new markets we've been able to complete two acquisitions, which further increased our footprint in Central and Eastern Europe. In Romania we've taken over a sizable life insurance portfolio and pension fund business and also have entered Ukraine with our acquisition of the currency's fifth-largest life insurance company.

Another area where we are successfully leveraging our skills and capability is in Spain. You can see that on slide 18. Despite the current difficulties, we continue to see strong long-term growth prospects for our core business, and, as such, we are very pleased to have entered into a long-term exclusive partnership with Banco Civica and Unnim, while making good returns on these investments. And, as you know, we are in the process of exiting our joint venture with CAM as well. We are confident that with these transactions, Aegon is repositioned to make the most of the longer-term opportunities in Spain, a country where the need for protection and savings products will increase in the coming years.

I'm now turning to slide 19, where you can see Aegon's capital position at the end of the fourth quarter. As you are aware, we've been working toward achieving a capital base ratio of at least 75% by the end of 2012 and we are pleased to report a capital ratio of 76.7% in the fourth quarter, which allows us to conclude our commitments to the European Commission. Our Group IGD ratio increased to 230% from the level of 222% at the end of the previous quarter, with the main drivers being the strong earnings generated during the quarter. The RBC ratio in the US increased to approximately 495%, and this as a result of strong statutory earnings and one-time releases that were partly offset by dividends upstream to the holding.

Not surprisingly we continue to believe that maintaining a strong capital position is not only prudent but a necessity in the current environment.

During the fourth quarter operational cash flows, excluding the impact of markets, totaled EUR619m, and I'm now on slide 20. Operational free cash flows, excluding market impacts, were particularly strong during the quarter, primarily the effect of reserve releases and proceeds from divestments. One-time items amounted to approximately EUR300m, which puts the normalized free cash flow number at around EUR320m for the quarter, in line with our expectations, and the higher new business strain reflects the strong new life sales, most notably in the Netherlands.

So let me now summarize, on slide 21. We have made clear progress positioning our businesses to compete successfully in the new environment. 2012 was a year in which we entered a new phase focused on generating strong business performance and growth, as evidenced by our results. We have taken the necessary steps to sharpen our focus, to improve the efficiency of our operations and to reposition our businesses for the growth prospects we continue to see going forward. The cancellation of all preferred shares is also a part of this transformation, as it simplifies the capital structure and further improves the quality of our capital base in the new European regulatory environment.

Our decision to propose an increase in our final dividend is not only a reflection of the strength of our financial position, but also of our confidence that we are well positioned for the future.

As always, we appreciate your continued interest in Aegon and we'll be happy to take your questions. Thank you.

QUESTION AND ANSWER
Operator

Thank you. (Operator Instructions). The first question is from Farooq Hanif of Citigroup. Please go ahead.

Farooq Hanif - Citigroup - Analyst

Good morning everybody. Thanks for taking my questions. First question is could you just quickly run us through the movement in the holding excess capital from Q3 to Q4, just the main items? Is it mainly just the cash flow that's been generated and how much of that cash have you actually been able to pay up to the holding? That's question one.

And question two is, I know that VAs are obviously very volatile and the markets are very strong in Q4 for you, but could you just talk us through the high VA margin that was achieved in the fourth quarter and the drivers behind that? Thank you.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Farooq, good morning. Thanks for your questions. So in terms of excess capital in the holding, what we said is that the excess capital in the holding increased to EUR2b at the end of the fourth quarter and that's up from EUR1.6b. And this is the result of dividends paid by the operating companies and the largest part obviously is from the US. And then we have to deduct the cost of the holding, so that's how you get to the EUR2b.

In terms of the VA, yes, we have a high margin. There is a one-off, which is related to a product change and a DAC unlocking. It’s not a recurring element. But what's important here is that we are continuing to run our business achieving a target of at least the 80 basis points of our assets, and that's what you see coming through the numbers here. On the specific item, Darryl, maybe you would like to give Farooq a little color to explain the one-off EUR20m, which obviously brings our margin for this quarter above our target of 80 basis points.

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Hi, Farooq. It's Darryl. We did have a one-off in the VA this quarter. We had been introducing volatility-controlled funds across our whole VA platform, and we got approval in the fourth quarter to push those funds into a large part of the mandates of the asset mandates behind a part of our VA business. That's going to lead to lower hedge costs going forward and when we run those lower hedge costs through the future gross profits we end up with a DAC unlocking. That was about EUR20m to the favorable this quarter in the VA line.

Farooq Hanif - Citigroup - Analyst

Sorry, just to understand, that's a new fund for existing customers?

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Yes. It's really we have to go through -- as you know, we do a lot of our DAC unlocking work in the third quarter. This was a case where we had a little bit delayed on that. We had to actually get the fund boards to approve the new fund mandates and the new volatility controlled funds, and that approval didn't happen until the fourth quarter so we couldn't take the benefit until the fourth quarter.

Farooq Hanif - Citigroup - Analyst

Okay. I'll probably come back on that later, but just on the cash flow, you were at EUR1.6b and you go to EUR2b, does the EUR2b holding also allow for the dividend that you've declared?
Yes. Very clearly. We have declared a dividend increase, which will be paid in May after the AGM. So we've taken into account the strength of our capital position. We've taken into account also the fact that we have been able to upstream cash flows to the holding and that was the basis for us to increase our final dividend from EUR0.10 to EUR0.11 a share.

**Farooq Hanif - Citigroup - Analyst**

Okay. I'll probably come back later on that with IR, but thank you very much.

**Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board**

Thank you Farooq.

**Operator**

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

**Ashik Musaddi - JP Morgan - Analyst**

Yes, hi. Thanks a lot and good morning everyone. A couple of questions. First is on dividend. I know we have discussed this a lot earlier as well but can you give us some clarity about how should we think about the dividend going forward? The reason being now your earnings are looking very stable if you look at it on a quarter-on-quarter basis for the last five or six quarters. Your capital has improved a lot. Your cash generation has improved a lot. So how should we think about dividend because right now the payout ratio on an earnings basis is just like 30%, 35%? So is that kind of number reasonable to think about, if you can give some color on that?

And second is can you give us an exact number as in how much of your perpetual securities will be counted as Tier 1 capital under the Solvency II rules, which was earlier not allowed to be calculated because of the preference share structure? Some color on this will be good. Thank you.

**Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board**

Yes, on the dividend, I think we've been very consistent with sharing with you what our policy is. And our policy is to have an attractive dividend, a dividend that grows with the business and that is based on the capital position of the Company. So that’s the first check, we need to have a strong capital position if we want to pay a dividend. But secondly on the cash flows which are being generated by the business and, as you know, we have given you an indication of what we expect from our cash flows. We said they should be growing and as such you can expect a dividend that goes in line, in sync, with the cash flow growth.

I want to make the point here is that there shouldn’t be -- there is no relationship between the dividends and the earnings. We are putting a link between the dividends and the cash flows, and checking if indeed the capital position is strong enough. So we should not relate it to earnings. As you know, they can be more volatile.

In terms of the perpetual securities, these junior perpetual securities, they will now be remaining as qualifying as Tier 1 under Solvency II. And the exact amount is?

**Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center**

Yes, Ashik, it’s Darryl. It’s a little hard to answer the exact amount. The Solvency II rules are still moving, as you know. The real issue here is that perhaps push and demote the junior perpetuals down into a Tier-2-class security. Our working assumption is that with the prefs gone that they would qualify under Tier 1. There are limitations under the Solvency II rules in terms of whether you’re looking at the SCR or the MCR in terms of the total amount that would be accounted as Tier 1. Our working assumption is that the majority, the vast majority of the perpetuals would in fact be Tier 1.

**Unidentified Company Representative**

Be grandfathered, yes.
Ashik Musaddi - JP Morgan - Analyst

Thanks. Just a follow up on that. So if I look at your financial statement, it states that EUR5b is something for perpetual and hybrid, so is it reasonable to say that a vast majority of this number would be allowed as Tier 1 capital?

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Yes. I think we're thinking, at this point, at least 80% of them would be grandfathered and that's roughly in line with our working assumption.

Ashik Musaddi - JP Morgan - Analyst

Okay, fantastic. Thank you.

Farquhar Murray - Autonomous Research - Analyst

Good morning gentlemen. Just one very quick question, and apologies if it got covered earlier, but does the capital restructuring at all affect the way that S&P will look at you? And I don't know whether you've had any preliminary discussions around that at all. Thanks. That's just the question.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Yes, Farquhar, thanks for your question. I'll pass it on to Darryl, who has had very recently discussions with the rating agencies, in particular also covering this item.

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Yes. Hi Farquhar. They're looking at it very favorably. They like the simplification of the capital structure, certainly. From their perspective actually our fixed charge cover does go up with the elimination of the pref dividend. From their perspective it's a mild credit positive.

Farquhar Murray - Autonomous Research - Analyst

Okay. Brilliant. Thanks very much.

Jan Willem Weidema - ABN Amro - Analyst

Good morning. Few questions. If I look at your core capital ratio it's now 75%, but presumably it will drop to around 74% if IAS 19 is imposed. Can you elaborate on where you want to your ratio to be now that, A, the EC requirement has gone but, B, your Solvency II ratios have improved?

And how will this impact your target for underlying earnings growth? In other words, what should we expect in short term capital redeployment?
And secondly, looking at the covenants of the foundation, is there any covenants there which relates to your dividend?

Final question, can you comment on whether you had a benefit from your innovative life bonds that you issued one or two years ago? Thank you.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Willem, maybe Jan will answer the first question on the impact of IAS 19 on the CBR ratio.

Jan Nooitgedagt - Aegon NV - CFO Member of the Executive Board and Management Board

Yes, it's a clear answer. It has no impact on our capital base ratio. Also our revaluation reserves have no impact. And it is the same way we treat the IAS 19, so no impact on capital base ratio.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

In terms of I think you were asking about the European Commission, as I said in my introduction, with the end of 2012 at a CBR ratio as defined with European Commission above 75%, we have met all our targets and as such we have now concluded our agreements.

Jan Willem Weidema - ABN Amro - Analyst

Maybe I should have explained it a bit better. What I meant to say is that in the past you said you also yourself would like to be around at 75% in the long run. So after the deal you're at 75%. That might restrict your capital redeployment and how does that impact the targets for earnings growth that you set two years ago?

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Jan Willem, there are many different factors affecting that 75%. That is one measure. What you also have to look at is the amount of excess capital freely deployable at the holding, which I think is giving you a better indication as to how much capacity we have to redeploy capital in one form or another. And I think I've been very clear is that in our plan going forward, we do expect to generate additional excess and we will be looking at ways of redeploying it. And it's not really linked to your CBR ratio. And, by the way, we have had a hard target of above 75%. What we've said about that ratio is that we feel comfortable with the level, but that means that we clearly have a bit more flexibility right now.

In terms of the question relating to the dividends, if there is any covenants with the Association, I can assure you that there is zero covenant with the banks providing the facility in relation to dividend or share price. And I think it's an important point you mentioned because that clearly it very much improves the situation for the Association in relation to its bank.

I believe that the last question on the life bond you were referring to the longevity swap we did in the Netherlands whereby we were able to take some of our longevity risk off our balance sheet. At this point in time we have said it has very marginal impact on earnings.

Jan Willem Weidema - ABN Amro - Analyst

Alright. Thank you.

Operator

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

Hans Pluijgers - CA Cheuvreux - Analyst
Yes, good morning. Coming back on the ROE target going forward because in principle you could argue that a big part of your other targets, like the fee part of the business, your growth quarter last year on the underlying level was very strong. But how you look at your ROE targets going forward? ROE has not really grown over the last few years. Yes, how do you see that going forward? Are you going much more -- somewhat more aggressive on that or can you give some feeling on how do you see really that, reaching that target in 2015?

With respect to the sales, second question, in the UK and the Netherlands, if you would maybe elaborate on the development in the Netherlands. What do you currently have in the pipeline with respect to the pension contracts? Have you become somewhat more active in that market over recent months? Does that explain the good development in Q4?

And also on the UK you argue that a marketing spend has helped or marketing action has helped in Q4. Any plans for that going forward in 2013? So how should we look at sales development in the UK?

**Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board**

Hans, on the ROE target we remain committed on delivering on our targets. Please also keep in mind that we have given the targets in conjunction with a set of financial markets assumptions and in particular, as you know, the level of interest rate development. We provided you the sensitivities. We are committed to delivering on these targets.

We do obviously recognize that this transaction at this point in time has a dilutive effect, but I'd also like to remind you that we are not paying any more preferred dividends and, as I said, in my introduction the preferred dividend is now at a, I would say, historic low level because it's based on the ECB refinancing rate, which I think is 0.75%. And as such if the ECB financing rate would be a bit higher, as I said, 2% or 3% higher, effectively that would take away the biggest part of the dilution effect from doing this transaction. And I think it's reasonable to assume that over a number of years that that number, that that percentage of ECB of the refinancing rate would go up.

What we are seeing is a business that is growing. We are seeing that we are growing results, that clearly also is increasing our equity for common shareholders. Our equity for common shareholders has also been increased by the fact that we've done this transaction. We effectively, as I shared in my presentation, transferred -- so the EUR2.1b minus the EUR400m which we bought back effectively -- to common equity. So you have a higher common book value, as we commonly call that for shareholders. So there's a number of various elements in here which I think you have to take into account when you look at it. But we remain committed on delivering on what we have promised to do.

In terms of sales, yes, we're clearly happy with the development where we see sales in all of our markets growing. You asked me specifically about the Netherlands. It is true that the fourth quarter in the Netherlands for pension business is traditionally a strong quarter. And I think we are benefiting also from the fact that there seems to be a little bit more movement now from pension schemes to move towards an insured solution and I think Aegon is extremely well positioned there to take advantage of that. And you see that movement is driven by the fact that interest rates have gone up a little bit and that means that the coverage ratios are getting closer to 100%, which means it's therefore economically possible to move these contracts to insured solutions.

We have a strong balance sheet. We have capacity. As I referred to the previous question of Jan Willem Weidema, we have laid off longevity in the market at an attractive price. So we have capacity to be an important player in this market.

On the UK I think it's a little bit too early for me to be very clear on how we see sales in this year because we have to take into account the whole effect and impact of RDR. So in the run up of RDR you've seen a lot of activity and we clearly benefited from that too. So it's not so much us specifically doing marketing campaigns or this kind of thing. It's more the fact that a lot of activity takes place before the -- took place before December 31 because at that point in time we are entering into a new world. What we will see is the pipeline of activity still flowing over in the first quarter and potentially in the second quarter. And really we will only have a clear picture of how the market will develop in the third and fourth quarter, not before that.

But what’s important is that I'm positive about our positioning. We've invested heavily in these platform propositions. I'm pleased to see that we seem to be recognized now as a leader in the market. We have platform propositions which cover B2C, which cover also direct to employees --- employers, and we have now developed a platform proposition that supports the intermediaries. So we have a very broad now capability and that should really I think bode well for the future, but I will be able to be more clear with you on that in the third quarter.

**Hans Pluijgers - CA Cheuvreux - Analyst**
Thank you.

Operator

Thank you. The next question is from [Paul Diaz] from RBC. Please go ahead.

Paul De’Ath - RBC Capital Markets - Analyst

Yes, hi there. Good morning. Couple of questions please. Just building on the question there on the UK business, just wondering if you could give me a bit more detail around the persistency charge in the UK as to exactly what that's in relation to and how you see that developing over the first half of 2013.

And the second point was just on the cash generation. The release of required surplus seems to be a much larger proportion of the cash generation in this quarter. How sustainable is that or should we be treating some of that as a one off? Thanks.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Yes, we've said we had this charge in the UK on persistency. It's not a big number, but still on the quarterly earnings it does have an impact. And this obviously is related to what we just discussed, the whole RDR activity. What's important here for me to say is that this is a one off. Effectively it's a DAC unlocking. So you have persistency issue and you have to write off the corresponding DAC. So it's not an ongoing effect.

But as I said also in the previous question is we expect that the effect of the activity in the fourth quarter will actually flow over in the first and second quarter so we therefore do expect to see some of this repeating and continuing in the first two quarters of the year. We said it was an amount of EUR6m or EUR7m so it's not a big amount, but obviously it has an impact and I would expect this to continue in the first/second quarters as a result of business which was agreed on in the fourth quarter.

You were asking about our cash flows. Yes, we had in this quarter a number of one-off items that relate to AG38 and they also related to our disposals and the proceeds of Prisma and Banco Civica. So these are clearly not recurring. But on AG38 maybe, Darryl, do you want to add something?

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Yes, on the operational cash flows there were some one timers in there so the operational cash flow was stronger than we would normally expect. It really related to what we got to the end of the year and did our capital testing and AG38 testing in the US and it did not turn out to be as severe as we were previously projecting and so we had some release there. We also released some of the discretionary default reserve in the UK as well. Thirdly, we put some additional hedging on in the US, which also freed up some required surplus. So those three really contributed to the operational free cash flows.

In terms of the holding company cash flows, and this does go back to Farooq's question a little bit earlier, yes, there were some extraordinaries there, as Alex just mentioned, in terms of the Civica and the Prisma sales contributed some additional holding company cash flow.

Paul De’Ath - RBC Capital Markets - Analyst

Okay. Thanks.

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 couple of questions please. Firstly just following on I guess from our operational cash flow question, could you just give an indication I guess of what the underlying run rate is that we could expect on a quarterly basis just stripping out the various one-offs that you mentioned?
And then the second question is just picking up on a few comments that you made earlier, Alex, where you were talking about some server management actions to try and minimize the impact of dilution. I was just wondering if you could expand on that at all please. Thank you.

**Alex Wynaendts**  -  **Aegon NV - CEO and Chairman of the Executive Board and Management Board**

Then on the operational cash flows I indicated in my introduction that if you would take off the one-time items -- which were just discussed; I won't repeat them -- if you also would correct for market impacts, change in shape of the yield curve, then the number would be, the outcome would be around EUR320m. Keep in mind that we had a very strong quarter in sales so our new business strain was a bit higher than usually. I think it gives you a reasonably good indication as to what we believe the run rate going forward is.

And second question on management actions, the point I was trying to make, Robin, is that we are clearly aware of the fact that this has -- is leading to some form of dilution. The dilution is minimized I think to an extent that's very acceptable in light of the entire transaction. It is an attractive transaction for all stakeholders. It is dependent on the level, as you see, of the preferred dividends. The preferred dividend's based on the ECB financing rate so it's extremely low and if the rate would have been some higher effectively dilution would be more limited.

And I think the point I was trying to make is that we are aware that we will take this into account in actions we'll be taking going forward to minimize or even neutralize entirely the effect.

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

Okay. Thank you.

**Operator**

Thank you. The next question is from William Elderkin from Goldman Sachs. Please go ahead.

**William Elderkin**  -  **Goldman Sachs - Analyst**

Good morning everybody. William Elderkin from Goldman Sachs. Couple of questions please. Following on from your last comment, A, are you thinking about taking some measures to eliminate the dilution from your stock dividend?

Secondly, given the timing of this transaction you've announced today, the level of your excess capital at the holding company I guess EUR1.6b or EUR1.5b after the completion, does that level provide a good indication of your real-world level of target buffer you want in place before you will consider major capital actions?

And then just a final numbers question. Within the Asset Management earnings, can you give us a guide to how much of those revenues are coming from performance fees?

**Alex Wynaendts**  -  **Aegon NV - CEO and Chairman of the Executive Board and Management Board**

As I just said, I don't think there's much, William, I can add to what I just said in answer to Robin, saying that obviously we want to minimize the dilution. We want to make sure that we do that in a balanced way, taking into account all the interests of all the stakeholders. I think I've been saying enough here.

In terms of the buffer on our capital, which is a related question, we have now significant amount with EUR2b. We've always been saying that we are focusing on being capital efficient. That means that we need to have a capital that is not necessary in the business unit needs to be upstreamed to the holding so that we can do something with it.

Today I still feel, and I've said it earlier, that we are still in an uncertain environment, an environment where we see a lot of things happening. Just need to remind you just 10 days ago we had a significant event here in the Netherlands with the nationalization of our fourth largest bank. So all of that means that this environment is an
environment where holding a strong capital position again is not a luxury. We've been clear that we have as a minimum buffer at least 1.5 times the expenses of the holding and that is around 1.5 times EUR500m to EUR750m. And that hasn't really changed so going forward we will be seeing what environment we are working.

But I think it's important that you can see here that we are deploying that excess capital in a way. We are taking EUR400m of it and taking that into account in the transaction, which is minimizing, as you can imagine, the effect on dilution of shareholders.

In terms of Asset Management, I think it's very difficult. Looking here around the table to my colleagues, yes, we have -- there is some performance fees, but I can tell you one thing, that in many cases at least a part of these performance fees get offset by an increase in incentives. So the biggest impact of performance in the portfolio is seen in the investment returns of the operating companies because that's where the performance of the investment goes to. So there's a little impact on performance fees in asset management, but it's not a very big one.

Darryl is --

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

It's about EUR6m in the quarter, Alex.

William Elderkin - Goldman Sachs - Analyst

This quarter?

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Yes.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Yes. But there's an offset also in the incentive.

William Elderkin - Goldman Sachs - Analyst

Great. Thank you.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Does that answer your questions?

William Elderkin - Goldman Sachs - Analyst

Yes, thank you very much.

Operator

Thank you. The next question is from David Andrich from Morgan Stanley. Please go ahead.

David Andrich - Morgan Stanley - Analyst
Hi, good morning. Just a couple of questions. First of all, in the Americas you mentioned that you've added some alternative channels in terms of the VA distribution. I was just wondering if you could maybe give a bit more detail on that.

Second of all, I was just wondering, over the past year equity markets in the US have been at least positive or reasonably stable and I was just wondering if that had -- have you seen any trends emerging in terms of impact on policyholder behavior because of market performance? Just wondering if anything has started to emerge there.

Then finally in terms of the SNS nationalization, just wondering if you could comment on maybe is it having any regulatory impact in terms of the regulator's attitude towards insurers and if they're looking at tightening things up more or the impact you see coming from that. Thanks.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Yes, on distribution we actually have been working very much on expanding our distribution. And I know we've had a number of new distribution channels. Some of them have been announced others not. I'm looking at Darryl who is just, as you know, coming from the US. So which one can you mention explicitly, Darryl? Some exciting ones actually.

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

There are and I'm probably more comfortable answering the trend than I am the names. I don't feel very comfortable putting actual names out so I'm going to withhold from that. We have been on both the VA and the life side lining up some very good names in terms of adding new distribution. Some IMOs on the life side and on the VA side as well we're also doing some white labeling on the VA side for some new distribution channels. And there is more in the pipeline as well. We're in the process of signing up two very interesting names right now and I just don't want to put those out there right now for obvious reasons. But I would say that there is still momentum coming and more to come.

I think the other question was on equity markets and the impact on policyholder behavior. Really the policyholder behavior, it is dynamic and as our assumptions. So we're really not seeing anything deviating any different than what our underlying assumptions are, which are when the policy guarantees are in the money the lapse rates are quite low, and when they're out of the money they follow a more normal lapsation function if you will, which itself is also a function of interest rates. So as long as interest rates remain low and those products that are in the money their lapse rates are extremely low, as interest rates go up or the policies go out of the money you get into more normalization lapsation. We're not seeing anything different than that basic function.

Last question?

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

And on SNS maybe I should give the answer. Yes, on SNS obviously this has been I think quite a shock actually for people here in the Netherlands. A nationalization has never happened before, so there's a lot of questions around about the legal environment, to what extent is whole regulation and legislation in place to do a nationalization.

I personally think that clearly the positive of this whole thing is that there is clarity and that now we know that this institution is in safe hands in the State. It's obviously never a good thing that you have now a number of financial institutions in the hands of the State and I also believe that the State will be looking for options to bring it back into the private sector. But it probably helps us in a sense that it reiterates in the Dutch market that Aegon is really in a very strong position. The fact that we are showing consecutive improvement in our results, effectively increasing our dividends, is clearly in sharp contrast to what you see around SNS. And that should from that point of view be beneficial to Aegon going forward.

David Andrich - Morgan Stanley - Analyst

Great. Thank you.

Operator

Thank you. The next question is from Francois Boissin from BNP Paribas. Please go ahead.
Francois Boissin - Exane BNP Paribas - Analyst

Good morning gentlemen. Just a few questions please on my side. The first one on the core capital ratio. Can you give the number basically at the end of the year after dividend payment?

And am I right in understanding that you could consider actually dropping below the 75% you previously announced? That's the first question.

The second question is can you give us a sense of sensitivity for the underlying earnings before tax in the Americas that we can see for 2013 versus 2012 if we assume that rates and FX rate remain stable?

Lastly just more questions on SNS. Did you have -- are you going to have to pay a tax in 2014 following the nationalization? Thank you.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Yes, on the core capital ratio, IR will come back to you to give you an exact number. This is always in different moving parts and we need to do that very thoroughly.

So I want to make sure we get the right number and IR will come back.

What I said, yes, we have a target of at least 75%. I have said that we are comfortable with this target for the time being certainly, but at least we have more flexibility.

So that's the best I can say to you right now.

I'm not sure I understood your question on the US but, Darryl, you would like to --

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

I think it was a basic earnings sensitivity question. The interest rate I assume was the question.

Francois Boissin - Exane BNP Paribas - Analyst

Yes that's right. What's -- again taking the full year 2012 reported base, what happens to that base if rates remain at the current level, FX rates euro/dollar at this level?

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Yes, I think if you use 2012 as the base I think we're looking at about EUR10m a quarter headwind from low interest rates if they remain low into '13.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

If they remain at the same level that they have been in 2012.

Francois Boissin - Exane BNP Paribas - Analyst

Overall on average, I would say, is that your point?

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Yes, that's in line with our DAC assumptions. It gets a little bigger as we grow out because we do have an assumption that rates will rise over time. So it's $10m a quarter in '13. That probably grows to closer to $30m a quarter in '14 and '15 range. So it depends on how long rates stay out there. When you get out there, you get past our assumption of where, our DAC assumption where we are assuming that rates will rise further.
Francois Boissin - Exane BNP Paribas - Analyst

Yes, I understand that. You're in dollars or in euros in terms of 10 and 30 a quarter?

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

Both in dollars.

Francois Boissin - Exane BNP Paribas - Analyst

In dollars, okay. So in euros basically you would have -- it would be assumed -- the average exchange rate in 2012 was?

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

We're sitting at $1.33 or $1.34 here today. Obviously it was lower than that, much lower than that three months ago and where it's going to be three months from now I guess I have no idea.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

And if he knew, if Darryl knew, I'm sure he wouldn't be sitting next to me, he'd be sitting somewhere else.

Darryl Button - Aegon NV - EVP and Head of Corporate Financial Center

That's for sure.

Francois Boissin - Exane BNP Paribas - Analyst

Okay. Fair enough. And on SNS?

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Yes, on SNS we believe that we will probably have between EUR10m and EUR15m contribution to the EUR1b which, as you know, the financial markets. But the biggest part obviously is with the banks and we have a small bank and therefore it's a very small amount.

Francois Boissin - Exane BNP Paribas - Analyst

Sure. And it has be paid in 2014, I guess?

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Yes, I'm not sure. It's not clear.

Francois Boissin - Exane BNP Paribas - Analyst

It's at least expected.
Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

That's expected, 2014, a one off.

Operator

Thank you. The last question is from Gordon Aitken from RBC. Please go ahead.

Gordon Aitken - RBC Capital Markets - Analyst

Yes, morning. Just on this pick up in the Dutch pension funds which are looking for an insured solution, do you think and to what extent will the Dutch pension funds cut benefits such as future pension increases? And what do you think the DNB's attitude will be to that and will it result in an acceleration of buyers?

The second question is really a comment on competition. There seems to be a real lack of supply in this pension buyout market and do you think you will be able to take some more margin as a result of that?

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

Yes, on your first question it's obviously politically a very sensitive question. So will pension plans require to make cuts, yes, they do that and they are making announcements on an ongoing basis of reducing pension payments going forward. So that is taking place.

Now if your question is, if that is going to allow more transfers, I would say that's up to the pension funds and their boards to decide on it. Clearly I believe that there is a trend towards consolidation. There's still around 500 individual pensions. That means 500 boards, 500 institutions that need to be regulated. So I think it's clear to see that the regulator here would effectively look positively at a consolidation because it would make the environment more easy to regulate, but also more secure for the pensioners.

I'm talking, when I'm talking about 500, I'm talking about company schemes and sector schemes, and, as you know, we have a lot of them here in the Netherlands. But it's also clear boards of companies are looking for the solutions because it has an impact on their own balance sheet and therefore I can see this trend continuing. But we've seen that for some time.

So in terms of capacity and supply, the one thing which is clear is that we have a very strong balance sheet, another one with capacity, but also clear that's able to deliver the right products. And we have with now around 25% market share, we already have a very strong position. We have been frontrunners in bringing new concepts, new solutions, PPIs they call themselves. So there's a lot of changes taking place in this market and we are a frontrunner with a strong balance sheet.

And that should, rightly as you said, ensure that slowly margins should be improving. And as you look at our fourth quarter you see that we have been able to sell a couple of attractive contracts and these contracts all were attractive in the sense that they are contributing positively to our MCVNB.

Gordon Aitken - RBC Capital Markets - Analyst

Thank you.

Alex Wynaendts - Aegon NV - CEO and Chairman of the Executive Board and Management Board

This was the last question. Thank you all very much for listening in and I look forward to seeing you individually over the coming months. Thank you all very much. Bye bye.

Operator

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