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AGN.AS - Q4 & Full Year 2011 AEGON NV Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 17, 2012 / 08:00AM GMT

OVERVIEW:
AGN.AS reported 4Q11 sales of EUR1.4b and underlying earnings of EUR346m.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Aegon fourth quarter 2011 results analyst and investor conference call on Friday, February 17, 2012. (Operator Instructions). I'll now hand the conference over to Mr. Alex Wynaendts. Please go ahead sir.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

Good morning and thank you for joining our call this morning to review Aegon fourth quarter results for 2011. Also joining me here are Jan Nooitgedagt, the CFO, 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. And as always we look forward to your questions after the presentation.

So let me start by briefly summarizing the key highlights of this quarter. 2011 was a year of considerable progress for Aegon, having delivered on key strategic priorities despite difficult market conditions. The completion of the repayment to the Dutch state allowed us to turn our full attention to pursuing the substantial opportunities for our businesses in line with our ambitions.

In order to further strengthen our competitive position we initiated a broad restructuring program to reduce cost and create a more focused and responsive organization. As expected, this had an impact on earnings in the fourth quarter. That said, we are on track to realize the benefits this program aims to deliver, having achieved our targeted cost reductions in the UK and implemented plans also in Netherlands to reduce costs and improve operations.

A clear indication of the continued strength of our franchise was the consistently high level of deposits throughout the year, which led to successful variable annuity and pension businesses in the US.

And finally, as we previously indicated, we will propose a dividend of EUR0.10 per common share at our upcoming shareholders meeting in May, a reflection of the continued strength of our capital position.

Turning to slide three, you have heard us refer often to the transformation of Aegon in our discussion during the past year. This refers to the broad range of actions we have taken to sharpen our focus to enhance our growth prospects for the future. The divestment of our life reinsurance business, Transamerica Re was a key objective as was the sale of Guardian in the UK. The completion of these transactions at attractive valuations in a challenging market environment were consistent with our aim to optimize our portfolio businesses and to create a more focused Company.

Over the past year we've further reduced our spread-based balances by $10b while at the same time growing our fee-based business. This has been a specific strategic priority and one that we will continue to execute on.

We have achieved the GBP80m cost reduction target in the UK and will achieve the majority of the EUR100m cost savings program in the Netherlands by the end of this year.

But we are not only focused on restructuring. In each of our established markets we have been pursuing at the same time new initiatives to support our business growth. In the UK we launched a new platform that will enhance our competitive position in the At Retirement market and later this year we'll be launching a new online bank in the Netherlands to provide savings and investment services. And these are just a few examples of how we are positioning our businesses for the future.

Here on slide four, you'll be familiar with the financial targets we introduced a year ago. In December at our analyst and investor conference in New York, we reaffirmed these targets, albeit at the lower end of the range following our updated capital market assumptions in Q3. And we will continue to provide you regular updates on our progress.

Let me now turn to the fourth quarter underlying earnings for the Group on slide five. Fourth quarter underlying earnings of EUR346m reflect the impact of exceptional items, particularly in the UK as well as a strategic shift from spread-based earnings to fee-based earnings in the US. Lower fixed annuity earnings in the US were more than offset by strong variable annuity earnings including a benefit of EUR23m related to updated assumptions for revenue sharing with third party fund managers.

Life and protection earnings in the Americas included a one-time provision related our long term care business. During the quarter we refined the assumption changes that we reported in the third quarter. This resulted in a charge of EUR22m. In the fourth quarter of 2010 on the other hand earnings were positively impacted by a release of EUR14m related to employee benefits.

In the UK underlying earnings were impacted by charges and expenses related to the customer redress program. This program you will remember was implemented to address issues related to errors in customer records.

As you can see on slide six, with the exception of the UK all our markets achieved an increase in underlying earnings sequentially. In the Americas, results increased due to solid variable annuity and pension earnings, while in our Dutch pension business results benefited from better than expected results on mortality. And finally the results in New Markets benefited from improved Non-Life results in Hungary.

Now turning to net income on slide seven, there were several one-time charges that affected net income. As the slide indicates charges defined as Other had a significant impact. These relate primarily to a write-down of goodwill in our distribution business in the Netherlands, reflecting regulatory changes related to commission payments. In the US we made a EUR37m provision for potential life claims based on our analysis of our portfolio in relation to the US social security administration death master file, as it is called there. Impairment charges continued their lower trend during the quarter and they were below both the 2010 level as well as the level we reported at the end of the third quarter.

Let me now spend a moment to highlight our continuous efforts to reduce our cost base. You see this on slide eight. As you can see on this slide, we have achieved considerable cost savings, particularly in our established markets. At the same time, it's equally important that we continue to make investments necessary to ensure that our businesses remain competitive. We have strong confidence that we're making the right investments in the UK, the Netherlands but also in the US that will yield the intended benefits for our operation as well as for our customers. As you know, restructuring comes at a cost and the absolute level of operating expense for the year includes the charges we've taken to carry out the transformational program.

Slide nine. I'm very pleased to say that we have completed the UK restructuring program resulting in lowering our cost base for our life and pension business by 25% compared to the 2009 level as we promised. This lower cost base is essential to our ability to compete in a very competitive market where margins remain under pressure.

The customer redress program that I've already referenced is currently in its final phase. We have now taken the provisions for payment that we expect to make to our clients during the rest of the year to complete the program. As a result we're in a position now to fully focus our attention on pursuing our ambitions in the at-retirement and workplace-savings markets. We have recently launched our at-retirement platform, Aegon Retirement Choices, and the feedback from our advisors has been very positive. And later this year, we will launch a program in the corporate market for use by both employers and their employees.

I also would like to take the opportunity to welcome the UK, the Aegon UK CEO, Adrian Grace, to the Management Board. We announced this also this morning and we look forward to benefiting from Adrian's extensive experience as we address the broader challenges and opportunities for Aegon's business.

Let me now turn to the Netherlands on slide ten. In September you'll remember that we announced an ambitious program to reduce our 2010 overall cost base of our Dutch operations by EUR100m by 2013. With EUR35m in reductions already achieved, we expect to achieve the majority of the total amount of EUR100m this year. The base of these actions is to create a more streamlined and responsive organization and we will continue to update you on our progress in the course of the year.

In our Dutch business we again demonstrated our leading position in the pension market with a 5% increase in sales over 2010. We were able to close several large contracts confirming that we are one of the few companies with both the capabilities and the balance sheet strength to take on this business. We're also making the most of new opportunities arising from the premiepensioeninstelling or so-called PPI. Aegon received approval from the Dutch Central Bank to set up a PPI, which essentially is a defined contribution pension solution. This is comparable to a low-cost solution provided to employees and similar to the way the 401-K plan works in the US.

Recently, we offset the risk of future longevity increases related to EUR12b of reserves through an innovative transaction. This transaction frees up economic capital at an attractive cost and demonstrates again our strong risk management capabilities.

Let me now turn to slide 12 to the sales for the quarter. We achieved EUR1.4b in sales, which was somewhat lower compared to last year, but we achieved solid growth of our business in the Netherlands as well as in the Americas. However, as a result of our decision to re-price products in the UK, sales were lower there.

Throughout the year we achieved consistently high levels of deposits related to pensions and variable annuities in the United States and this was also the case for the fourth quarter. There is a clear need for retirement security and our US business is well positioned to achieve further growth in this core market.

And finally we experienced an increase in accident and health sales within our US employer benefits and affinity marketing businesses. These are typically products that provide supplemental coverage for accident and healthcare related insurance.

The cornerstone of our pension growth strategy in the US is our ability to innovate and offer a high level of customer service, while at the same time leveraging our extensive distribution network. And as you can see on slide 13, this approach has consistently delivered strong results for Aegon.

Gross deposits were up for the full year despite the lower results for the fourth quarter. Net deposits were down as a result of an unusually high level of merger and acquisition activity in the healthcare space where we are a leading provider. In this quarter we've seen that the number of our healthcare clients were acquired and that their pension assets were transferred to the plans of the new owners.

And like many of our peers, we've seen downward pressure on fees as both new and existing business is being priced at lower levels. However, the efficiencies we've put in place as a result of state of the art technology, combined with what we're doing to capture economies of scale, have enabled us to maintain our margins this quarter at 24 basis points.

Now turning to slide 14, to our variable annuity business in a bit more detail. Again this quarter, variable annuity earnings were strong compared to the same quarter -- same period last year. This is partly as a result of a one-time benefit related to revenue sharing with third-party fund managers. In the fourth quarter margins for variable annuities, excluding the one-off I mentioned, amounted to 92 basis points, above our mid-term expected margin of 80 basis points. Both gross deposits and net deposits demonstrated considerable growth. And I should mention here that our introduction of partnerships in the direct channel, where we white-label for other companies proved to be very successful.

As we announced with our third quarter results and turning to slide 15, we have lowered our interest rate assumptions to reflect the current low interest environment. Recent new money investment yields are within our expected range of 4% to 4.5% consistent with our assumptions.

Turning to slide 16, given the continued turmoil underway in the eurozone I want to again make clear that Aegon's exposure to peripheral European countries continues to be very limited, as you can see on this slide. Here we provide you with Aegon's total exposure to all fixed income securities related to these countries.

I now would like to turn on slide 17 to Aegon's capital position at the end of the fourth quarter. Our capital position continues to be strong with an IGD ratio of 195% and an RBC ratio in the US of approximately 450%. In the current uncertain environment we believe that maintaining a strong capital buffer is essential. Dutch Central Bank provided an option to use the average fourth quarter 2011 interest rate curves for discounting liabilities instead of year-end curves and this applies to the Dutch companies. We have decided not to take advantage of this option although opting for the average method would have increased our IGD ratio in Netherlands by 30 percentage points.

Excess capital on a AA S&P basis remained stable compared with the previous quarter. And as I already mentioned, we will propose a final dividend of EUR0.10 per common share over the second half of 2011.

Here on slide 18 we provide you with Aegon's capital base ratio, which amounted to 73.5% at the end of the year. 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.

As you may recall, at the end of 2010 we announced that we would be setting up a new regional office in Hong Kong to manage our interest in Asia including the Asian businesses previously run from the US. To reflect this new structure in our reporting, the earnings of our Asian business previously included in the life and protection line of business in the US will be reported in our Asian line of business as of the first quarter 2012. And we will provide you obviously with comparable numbers in April.

Another change that you will notice as of the first quarter of 2012 is our objective to charge approximately EUR75m, which is a portion of our holding expenses, to our country units. This reflects the services and support provided by the various functions at the corporate center to the country units and to optimize our fiscal position. Neither of these changes will have an impact on overall earnings but they will reflect the shift in how we attribute earnings to our various geographies.

So let me now conclude with slide 20. In 2011 we have made significant progress in delivering on our strategic priorities and in positioning ourselves for the future. We repaid the Dutch state. We completed the UK restructuring, achieving the 25% cost reduction by 2011 as promised. We completed the divestment of our reinsurance business and Guardian and at the same time we achieved strong growth in our core businesses of pensions and variable annuities, areas that offer significant opportunities going forward.

In what remains an uncertain economic environment we continue to maintain a strong capital position and will propose a dividend of EUR0.10 per common share over the second half of 2011. Our businesses are delivering on a consistent strategy which we believe will generate sustainable growth for Aegon going forward.

I'm happy to take your questions now.

QUESTION AND ANSWER

Operator

Thank you sir. (Operator Instructions). The first question comes from Farquhar Murray. Please proceed with your question.

Farquhar Murray *- Autonomous Research - Analyst*

Good morning gentlemen. It's Farquhar. Just firstly with regards to the Dutch business, you're very healthy given the solvency ratio there. Could you just confirm whether there was any capital injected into that unit during the quarter?

And secondly, the US RBC ratio improved substantially in the quarter. I just wondered if you could give some color behind the improvement of what we're seeing there, i.e. the drivers.

And then finally on slide 18 you show over 4 percentage points of equity capital that you'd be intending to upstream during 2012. Could you just indicate why the -- how much of that might already be available within the operating units currently or is likely to be upstreamed this quarter? Thanks very much.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

Farquhar, good morning. In terms of your first question did we inject capital our Dutch operations, our answer is no.

The second one on RBC, what we see indeed is a significant improvement in RBC ratio. It's a combination of earnings, management actions. Let me give you an example, we executed the fixed annuity coinsurance transaction. And what also played a role is that we upstreamed dividends earlier this year so we didn't upstream any dividends in the fourth quarter.

Darryl, is there anything you would like to add here?

Darryl Button - ***Aegon NV - CFO, Americas***

No, I think you've covered it well.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

And on your other question, Farquhar, I would like to come back in detail --

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

Farquhar, it's Michiel. We usually do not take out dividends already in the first quarter. We'll be taking them out during the year as planned.

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

Okay. Thanks very much.

Operator

The next question comes from Jan Willem Weidema. Please proceed with your question.

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

Good morning. Jan Willem Weidema, ABN Amro. Following actions by [Allianz Reale] yesterday do you consider impairing any DAC in the Netherlands?

Second question, I saw that you took a DTA charge in UK. But if I look at your run rate numbers now of about EUR35m underlying earnings in the UK, why have you taken that charge?

And finally, could you give some indication where you see the impairment charges for the Company as a whole moving in 2012?

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

Jan Willem, on the Netherlands it's very simple. The goodwill impairment we've taken on our distribution business, UMG. We have not taken impairment of our life companies and there is no goodwill, hardly any goodwill on the balance sheet for our life companies. Keep in mind that we have not acquired the life companies in the Netherlands and that explains why.

On the DTA we have taken this quarter the amount which we need to take now. So I feel comfortable about that.

And your last question was related to?

Jan Willem Weidema *- ABN Amro - Analyst*

The impairment charge for the Company as a whole, could you give some guidance of where you see that going in 2012?

Alex Wynaendts *- Aegon NV - Chairman and CEO*

Yes. I will make a comment and then I will ask Darryl to fill in. As you see, impairments have continued to decline, but the decline is somewhat masked in the fourth quarter by the fact that we have had a significant impairment, or I would say significant in the relative to the size of our Hungarian businesses, in relation to the mortgage business in Hungary as a consequence of, as you know, the regulation which has been put in place by the Hungarian government. So we see that as a one-off impairment in our mortgage business in Hungary. So if you take it out you see that there is a continued improvement in the trend of impairment and we expect that to continue.

Darryl?

Darryl Button *- Aegon NV - CFO, Americas*

Yes. In terms of the US portfolio the impairment that we're seeing still are coming from the residential mortgage portfolio. We're really seeing nothing in terms of impairments on the corporate side and the commercial mortgage book has held up very well as well. So we see that continuing to trend better and I think I'm looking for the quarterly trend to improve throughout 2012 modestly.

Jan Willem Weidema *- ABN Amro - Analyst*

Okay, thank you.

Alex Wynaendts *- Aegon NV - Chairman and CEO*

Thank you.

Operator

Thank you. The next question comes from Farooq Hanif. Please proceed with your question.

Farooq Hanif *- Morgan Stanley - Analyst*

Good morning. Just a few questions. Firstly, going to the VA business in 4Q, you commented on the call that even if you strip out the one-off you're annualizing at roughly 90 basis points plus in the fourth quarter in terms of margin. Can you explain what's going on in terms of pricing and whether we might see that continuing to be elevated even above the 80 basis point level in the near term? That's question one.

Question two, looking at your cash flow in the fourth quarter you've got back to a more normalized level and so we can guess that you're on track for the EUR1.2b, EUR1.3b to the holding. So if you take out holding costs -- what proportion of the net-net free cash, my question is, would you be willing to pay out in dividend going forward after you've got to your core capital ratio? So what do you see as a -- how should we think about cash and dividends going forward?

And the last question is, the longevity transaction in the Netherlands, what -- would there be any earnings impact or earnings defense impact from that going forward? Thank you.

Alex Wynaendts *- Aegon NV - Chairman and CEO*

Sure. On the first question on the VA, Darryl will respond.

Darryl Button *- Aegon NV - CFO, Americas*

Yes. Hi Farooq. It's Darryl. In terms of the VA, I actually would break your question into two pieces, the in-force margins and pricing I think was your other question.

In terms of the 90 basis points, when you normalize out the one-time positive we had, yes, that's a little above our guidance of 80 basis points that we gave in December. I would say this, an 11% market return in the quarter helps that. So there's still some fee-based leverage coming off of the products so the higher markets do boost that. If you remember in December we talked about 80 basis points and gravitating up over time. So I would just say that it's still a little bit market dependent there.

In terms of pricing on the product that is an issue in that we did re-price the product in December for the low rate environment that we are living in right now. As we mentioned earlier, we do tend to be first to market in re-pricing for those types of environments and we were. So I see some impact on sales going forward but the main point is that we're re-pricing to preserve margin.

Cash flow?

Alex Wynaendts *- Aegon NV - Chairman and CEO*

Yes, Farooq, on your question on cash flow I'll repeat here our dividend policy. As you know, we aim to pay sustainable and then attractive dividends based on strength of our balance sheet and the cash flow through the earnings. And I'm actually pleased that we are now starting to pay dividend. This is a dividend over the second half of 2011, a EUR0.10 dividend. It does signal our confidence in the future. It does signal the strength of our balance sheet and it does also signal the fact we'd be able to upstream cash flow to the holdings.

In terms of your third question, longevity, let me first say it will not have a meaningful impact on earnings. But I'd just like to put this transaction in the context because I think it's an important step. We have done this transaction, have been the first one to do this transaction. It's quite an innovative transaction because it allows us first of all to continue with our aim to further improve our risk management. As you understand, this transaction effectively covers for the risk for a further increase in longevity. We've already taken last year the increase on longevity which we have been observing. So, as you know, people in Netherlands are getting older. But what we do here effectively is mitigating significantly further increases in longevity.

But what also is important it does free up economic capital. And that means it's, in that context it's balance sheet management that also allows us of course to have more capacity to be a player in this market. As you know, in the Netherlands there's a whole group of pension funds. There are hundreds of pension funds here of which it is clear that they either have to merge because they are too small, they either have to be taken over or they have to transfer their liabilities to insurance companies because that is how the market is going to go. We want to make sure that we have sufficient capacity, balance sheet strength in order to be a player on this market. And we want to do that obviously with the right pricing. And that I think is important.

So this transaction is not only about our balance sheet, but it's also about being more offensive in our business in the Netherlands and with the capacity which we are generating, at a time that capacity I can tell you is very limited here.

Farooq Hanif *- Morgan Stanley - Analyst*

Can I just come back on that? So I think you mentioned EUR12b of liabilities that are covered by this transaction. And I seem to remember your pension contracts general account Netherlands does slightly higher than that. Is this basically covering all of the longevity risk in a swap or most of it?

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

So just keep in mind that we have EUR30b of reserves and this is EUR12b so it does cover at least a third. And as I just explained to you, this is out-of-the-money protection. This is in case longevity further increases above what we have estimated and this is a transaction which effectively gives us protection somewhat out -- if you look at an option, if I can talk in terms of an option, that's the way, by the way, how we look at it -- it's out-of-the-money protection.

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

Okay. Thank you very much.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

It's only covering EUR12b out of EUR30b.

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

Okay. No I seem to remember your general account was smaller than EUR30b. But anyway I can take that offline; it's not a problem.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

No, it's EUR30b of reserves.

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

Okay.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

Thank you, Farooq.

Operator

Thank you. The next question comes from Robin Buckley. Please proceed with your question.

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

Yes, good morning. Three questions if I may. Firstly, could I just talk about US margins? You've commented on the VA business, but in your remarks you were talking about the pensions business over there with some fee pressure and you were able to offset that with cost saves. Could you just give an indication of how you expect margins to develop within that business?

And also more generally within the US which lines of business do you think are more susceptible in the near term from the low yield environment from a margin perspective?

Second question is just related to the cost saves in the UK. You confirmed the GBP80m. Can you perhaps give an indication of how much of that we should expect to drop through into the UK bottom line earnings in 2012?

And then final question is just on the Group excess capital. I was a bit surprised to see that that stayed constant at EUR3.4b given that you had the disposal of Guardian in the quarter. So perhaps you can just comment on why that didn't increase. Thanks very much.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

Yes, on the pension business in particular, yes, we made a remark; it applies also in general. Robin, keep in mind that in all of our key markets, in our more developed markets, we are seeing margin compression. So it's not only for the US; it applies to the Netherlands and the UK. What you see happening here is that this is consistent with what we've been saying for some time and that's also why we're taking actions. Our cost reduction programs in the UK, clearly we've now completed it. That's why we make a point of it now. But in the Netherlands we have EUR100m cost reduction program.

In the US we've been implementing cost reduction programs for quite some time and that's been really part of the way the organization has been streamlined. I am sure that you'll remember that we used to have 13 business units we've now streamlined that into three divisions. All of that part of the effort to be not only more streamlined to be able to respond more to the market, but also to take our cost out and then deal with the margins. I was actually pleased to share with you that despite what we see as lower fees in the pension business, I think there's been -- we've seen has been talked about quite a lot recently. It is an achievement of our business of having maintained a 24 basis points. It's the cost reductions combined with the investments we've made in the past.

As you know we've been, I think, clear also in our presentations in December that we have invested significantly in our capabilities. And that is what allows us to maintain our margins.

Darryl?

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

So you're confident that that will maintained into the future?

Darryl Button - ***Aegon NV - CFO, Americas***

Yes. This is, Robin, this is Darryl.

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

Yes.

Darryl Button - ***Aegon NV - CFO, Americas***

We were 24 basis points in the pension business in the fourth quarter. That's right in line with our expectation and that is in line with our expectation going forward. I think as we shared with you in December, we are seeing the same revenue margin compression that the industry is seeing and talking about. But it gets to what Alex just covered which is the investments we've made in the technology has really made our pension platform very scalable. So we are bringing down expense margin as fast if not faster than the revenue is compressing. So I do see stability in that margin going forward.

I already covered the VA margins earlier. We guided 80. We are seeing a little more for that because of the market growth.

In terms of the -- I think your other question related to the US was the low yield impact on margins. That's really more over on the life side. It is a slower, I guess I would say a slower come through in terms of the results of the margins as it relates to low interest rates, but that's also where we have the largest cost take out programs in place in the US. So, again, we're doing everything we can to preserve the margins on the life side as well.

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

Okay. Thank you

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Alex Wynaendts *- Aegon NV - Chairman and CEO*

So on the UK, Robin, yes we have said that we would be taking our GBP80m of cost. And effectively that is GBP40m maintenance expenses and GBP40m acquisition expenses. As you know, acquisition expenses get deferred so the impact therefore on the P&L, on earnings effectively, is 50%. So in total what you see is that GBP80m, the way it gets reflected in the earnings is 20% -- sorry GBP20m, being 50% of GBP40m acquisition costs, plus GBP40m of maintenance expenses. That's in total.

Now you asked me the question how much would we see in 2012. Clearly we have taken a lot of the expenses earlier than in -- than the final quarters in 2011. So the amount of expenses which will still come through the earnings in 2012 compared to the previous years on the same basis is somewhere between GBP20m and GBP25m.

Robin Buckley *- Deutsche Bank - Analyst*

Okay.

Alex Wynaendts *- Aegon NV - Chairman and CEO*

Thank you.

Robin Buckley *- Deutsche Bank - Analyst*

And, sorry, just on the Group excess capital as well.

Alex Wynaendts *- Aegon NV - Chairman and CEO*

Excuse me, would you mind, Robin to --

Robin Buckley *- Deutsche Bank - Analyst*

Yes. So it was just the Group excess capital. It was EUR3.4b at the end of Q3 and EUR3.4b at the end of Q4, and I'd just expected it would have increased a little bit because of the sale of Guardian.

Alex Wynaendts *- Aegon NV - Chairman and CEO*

Michiel, you want to say something? It's very small changes here.

Michiel van Katwijk *- Aegon NV - EVP*

Yes. Robin, hi. It's Michiel.

Robin Buckley *- Deutsche Bank - Analyst*

Hi.

Michiel van Katwijk *- Aegon NV - EVP*

Hi. The EUR3.4b, remember, is on an S&P basis. And the S&P base is, in the fourth quarter for the US, reflects additional capital requirements that we have included related to mortgage loans. And so what you actually do not see coming through fully on a -- on an NAIC RBC basis, but on S&P basis there is an additional charge there and that is offset by earnings and the proceeds from Guardian.

Robin Buckley *- Deutsche Bank - Analyst*

Okay. That's clear. Thank you.

Operator

Thank you. The next question comes from Albert Ploegh. Please proceed with your question.

Albert Ploegh *- ING - Analyst*

Yes, good morning gentlemen. A question on the US tax rate, you flagged in the press release the utilization of a deferred tax asset was previously not recognized more or less as an exceptional item. But in a way can you remind us what amounts are outstanding and non-recognized deferred tax assets and what are you're basically able to utilize more in the coming years?

And also to come back a bit on the margins on the value of new business, I know it's not a huge focus point right now, but you are looking at the Americas it clearly is now only 4m, so clearly some product lines probably on the life side which are now in negative territory. What are you planning to do in terms of addressing this given the low yield environment? And are you scaling back some products right now? Can you give some more color there? Thank you.

Alex Wynaendts *- Aegon NV - Chairman and CEO*

On the US tax rate, Darryl?

Darryl Button *- Aegon NV - CFO, Americas*

Yes. Albert we did have a $20m benefit come through in the US. It was actually related to a restructuring we did of our community and operations. We put up a tax valuation allowance against it when we did this restructuring a couple of years ago. Because we weren't able to use the loss at that time, we've actually been able to use that loss and that's come through now. This is actually the last release of that valuation allowance so I don't really see a lot of extraordinary tax valuation allowance releases going forward.

In terms of the VNB in the US, actually the biggest impact in the fourth quarter was the higher hedge costs on our variable annuity product. And that's what brought our VNB down the most in the fourth quarter. That is why we reintroduced and changed our product on December 12. We wrote and launched a new product so that is going to remove that negative going forward.

I would say in terms of the impact on, the remaining impact on low interest rates, the universal life secondary guarantee product is still the product we have in the portfolio that isn't hitting our thresholds right now and we're actually introducing a new product in the second quarter there with increased pricing and lower guarantees. So we continue to proactively address the product set in terms of the low interest environment.

Albert Ploegh *- ING - Analyst*

So in a way the VNB in the US should be a bit of a low point right now I would say.

Darryl Button *- Aegon NV - CFO, Americas*

Yes. As we address the -- really its primarily two product issues, the universal life secondary guarantee and the VA product and we're (technical difficulty) both of those over (technical difficulty).

Albert Ploegh - *ING - Analyst*

Okay, thank you.

Operator

The next question comes from Nick Holmes. Please proceed with your question.

Nick Holmes - *Nomura - Analyst*

Hi there. Good morning. Couple of questions. Firstly, there's clearly strong demand for your VA product and I wondered could you tell us again how you're pitching the product, why it's successful and what you think are the main risks are to your strategy?

And then second on capital position, you've obviously now got a fair amount of excess capital and I wondered if you could just talk us through your appetite to use some of this for acquisitions, small acquisitions or bigger ones, and also possibility of retuning some of it to shareholders at some point. Thank you.

Alex Wynaendts - *Aegon NV - Chairman and CEO*

Nick, let me address your second question first and then we can spend a bit more time on the variable annuity, which I think is actually a good story for Aegon and I'd like to spend a bit more time on it. Our capital position is strong, but, Nick, I've been saying consistently that part of our strategy is to continue to maintain a strong capital position. There's a lot of uncertainty out there in the world and this is not a luxury. That means that that is how we will be focusing to maintain a strong capital position going forward. So don't expect any acquisitions.

In terms of the variable annuity product I think it's a good story. It's a story which you start seeing the results now. It's a story which, you probably remember in 2003 when we decided to effectively shut down our GMIB business was the right decision. It has taken some time to build up back to franchise, to position ourselves in a segment of the market where we feel that the risk/reward of the product makes sense both for the customers and for us. And that's what you see now coming out in the results.

Darryl, you want to --

Darryl Button - *Aegon NV - CFO, Americas*

Yes. Nick you were asking about our sales pitch and first of all let me just say that our hedging and derivatives team is part of our product development process and it goes right back to how we design the product. And we were the first and one of the few to tier the pricing. The reality is equity guarantee as an option costs more for higher equity content and less for low risk funds. So we have tiered pricing and we are not competitive for the higher equity content funds, so we and we state that right upfront. So we target to the more conservative investor.

As a result, we also build in, we've been innovative in building in volatility dampeners and adjustments in to the underlying funds. So we try to build some of the risk management down into the fund. And effectively in our pitch to, our wholesaler pitch to advisors is that we'll target the conservative investor that's looking for lifetime income guarantee. And that's where we segment the market. That's where we win. Where we don't win is aggressive 100% equity content type of funds and we tell them that. So we segment our marketing strategy and price to a segment of the market that we think is more rationally priced.

Nick Holmes - *Nomura - Analyst*

And what's the competition like in that segment of the market? Is it -- the higher end of the market is very competitive. Is the lower end really not particularly competitive?

Darryl Button - ***Aegon NV - CFO, Americas***

It's a very competitive space. As you know we are number 10 in market share so we are not a leading market share and for that reason there are some very competitive products out there. And we've shown our discipline really you know over the last seven, eight years that we've been in the market very consistent with our strategy and very consistent in terms of holding to our discipline to re-price and change the product when hedge costs change. That's not a philosophy that is necessarily standard in the industry, but that is our philosophy.

So we'll step aside from some market share when we need to. This is one of those times where I would see some moderation in the sales coming because we did re-price in December because of the low interest rate moves late in the third quarter. We were one of the first to do that so we're just down a little bit on some of the sales, but I expect some catch up from the rest of the industry will come throughout the year.

Nick Holmes - ***Nomura - Analyst***

Okay. Thank you very much.

Operator

Thank you. The next question comes from William Hawkins. Please proceed with your question.

William Hawkins - ***Keefe, Bruyette & Woods - Analyst***

Hi. Thank you very much. I've got two questions first of all on the assumption change for the US VA revenue sharing, can you explain what exactly was the assumption? Is it a passive impact because of just how your funds are moving or have you been actively renegotiating? Just what's enabled you to make the assumption change?

And then secondly, I'm sorry, back on the US life and protection result. I thought that on an underlying basis the third quarter figure had actually dipped down to the $170m to $180m range after your $200m historical trend. And I'd assumed at the time that that was the impact of low yields rolling through. Now in the fourth quarter on an underlying basis we are back up to about $200m after the one offs. And apologies if I'm being a quarterly analyst here, but I just wondered is there some other funny or do we just look back on the third quarter as an aberration?

And then on a forward looking basis, again back on the question about the impact of low yields, if I take $200m as a reasonable quarterly run rate for 2011, how much should that fall by if yields stay where they are at the moment this year? Thanks

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

Darryl?

Darryl Button - ***Aegon NV - CFO, Americas***

Yes, William. Hi, it's Darryl. First of all on your -- the revenue assumption change, it's a little of both. We actually did clear up and renegotiate some revenue contracts that we had, revenue sharing agreements, and some of that did resolve itself in the fourth quarter and that was part of our assumption change. The other part of it was really just going back and reviewing all of our assumptions. And some of it tied to the Merrill Lynch acquisition that we did a couple of years ago and getting those agreements crystallized if you will. So some negotiation and some is what I would say is review of assumptions.

In terms of the life run rate, I guess what I would say is if you adjust out for the one timer that we talked about related to long term carrier you get pretty close to what I would consider run rate, your $200m number is what you're getting to. I would say it's a little high. We had a pretty strong quarter in terms of mortality and persistency to go inside of that so I may take you down just a little bit from there, but you're definitely in the zone.

William Hawkins - ***Keefe, Bruyette & Woods - Analyst***

And can you just remind me how much that figure could fade by if yields don't change this year?

Darryl Button - ***Aegon NV - CFO, Americas***

What we've said and what we said going back in the third quarter is that we've readjusted our DAC assumptions down in the third quarter and I think you have those, and those are included in the presentation. We are still seeing new money reinvestment yields right in line with those expectations. So we are somewhere in that 4% to 4.5% range which is what's built into our models and assumptions. So as long as -- so if we go sideways from there we really don't see any DAC effects and the impact from just the book yields trending down is relatively modest on a one to two year basis.

William Hawkins - ***Keefe, Bruyette & Woods - Analyst***

That's great Darryl. Thank you.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

This is consistent with what we've said also in December and you can see on one of the slides we've added, you can see how we look at the reinvestment assumptions we have for our targets.

William Hawkins - ***Keefe, Bruyette & Woods - Analyst***

Excellent. Thank you.

Operator

Thank you. The next question comes from William Elderkin. Please proceed with your question.

William Elderkin - ***Societe Generale - Analyst***

Good morning everybody. It's William Elderkin of Soc Gen. A couple of questions. First on the dividend, I see your providing a stock dividend option, which I think is in line with your dividend policy. Previously when you were paying a dividend you then had, I think, a plan of then offsetting that dilution in the market. Can we expect something similar going forward?

Secondly, can you give us an idea of what the full year run rate is for holding company expenses within underlying earnings, assuming your earnings presentation doesn't change?

And then finally I understand that the US life companies under US GAAP are changing the way they report and calculate DAC. Are you going to make that change in your own reporting for the US life business? And if you are not, is there anything we should be thinking about in terms of comparing the earnings you report for America's business with the earnings we can see out of, coming out of your competitors in the US?

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

Yes. On the first, on your first question around the split between cash and stock, what I'd like to say here is that we will not be buying back stock at this point in time.

In terms of run rate for the holding expenses, we've been assuming a range of around EUR600m. So, Michiel, you want to?

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

Yes. I -- hi, it's Michiel. If you look at the fourth quarter it's actually a pretty normal quarter for holding. And so I am comfortable if you take that forwards. There will be a little bit of plus or minuses going forward, but that's -- the fourth quarter is a good indication. And that's before we charge, starting charging country earnings. And that charge is going to be somewhere around 75m. If you divide that by four and then you have the after allocation run rate for the holding.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

We are doing this because we also want to make sure that we keep on optimizing our tax position as you will, I am sure, understand.

And your third question is around would we make the changes which -- our US-GAAP changes. What I'd like to say here is that we account under IFRS and therefore will not make the change. Darryl, do you want to get into a bit more color about how we should be looking at comparisons?

Darryl Button - ***Aegon NV - CFO, Americas***

Yes, well if you're talking about ASU 2010-26, it's the DAC change US companies are making. We are not adopting. That's the short answer. As Alex has said, we are not required under IFRS.

In terms of structural differences to US companies going forward, yes, they're charging a fair bit of the DAC off. I've seen anywhere from 5% to 15% of equity, in that range for US companies, averaging somewhere around 10% of equity coming off of their book values. Obviously that leads to higher earnings going forward as you amortize less DAC. Some of that also is a function of you're also deferring less acquisition cost as you go forward so it depends on if your -- how fast you're growing businesses as well. So when that earnings differential shows up its spread out into the future, but it's about a 10% of book value shave off of equity off the US companies, yes.

William Elderkin - ***Societe Generale - Analyst***

Thank you.

Operator

Thank you. The next question comes from Raphael Caruso. Please proceed with your question.

Raphael Caruso - ***Raymond James - Analyst***

Hi, morning everyone. Just a quick question for concerning the customer redress program in the UK. So you mentioned it is the final phase. So it is the end of the program or should we forecast any further part in the Q1 2012, for instance?

And my second question, so you quite answered it, but concerning the deferred acquisition cost in the US and the new regulation of the EITF. What is the amount of DAC you have in the US and what is the impact? I think it's the minus 10% of the book value, but could you confirm that please? Thanks.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

So let me start with the first question on the customer redress in the UK. As we've been saying since last year is that we are aiming -- we've been aiming on finalizing our customer redress program by the end of 2011. And that means that we also then have taken all the related charges as of the end of 2011. So in principle you should not expect more additional customer redress charges. Having said that I would never want to say never because this has been also on an ongoing business.

In terms of your question on the US variable annuity, Darryl will answer.

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Darryl Button - *Aegon NV - CFO, Americas*

The DAC [invova], I think the question was. In terms of -- first of all, I would say we are not adopting the policy so we haven't gone through and done -- and did the detailed work so I can't give you the number in terms of what it would be. I think you did ask total DAC [invova]. Total DAC [invova] for the US is a little over $10b. You can find that in the stats supplement.

Raphael Caruso - *Raymond James - Analyst*

Okay. Good, thanks.

Operator

Thank you. The next question comes from Richard Burden. Please proceed with your question.

Richard Burden - *Credit Suisse - Analyst*

Hi. Sorry to come back to the DAC issue, but whilst I appreciate you are on IFRS and not on a US-GAAP basis you are now the only major European insurer that's not actually adopting this policy. AXA has announced that it's adopted the policy, ING has obviously written off all of its DAC and Prudential in the UK has also adopted it. So don't you think you ought to be looking at this policy and bringing it in to be consistent with your European peers?

Alex Wynaendts - *Aegon NV - Chairman and CEO*

Yes, well, I think we've been clear there.

Jan Nooitgedagt - *Aegon NV - CFO*

Maybe I could give here an answer. Jan Nooitgedagt. What we will do is we will move to a new accounting system when we have IFRS for phase two and that was important because we are on IFRS; it's our accounting. So that's the reason we have not adopted this.

Richard Burden - *Credit Suisse - Analyst*

Okay. Thanks

Operator

Thank you. The next question comes from Francois Boissin. Please proceed with your question.

Francois Boissin - *Exane BNP Paribas - Analyst*

Yes, good morning. Francois Boissin from Exane BNP Paribas. Just one question remaining please. Could you quantify the impact of capital release from the longevity transaction in Netherlands?

And in what time frame do you basically expect to see higher assets under management from the consolidation of pensions business in the Netherlands. Is this a two, three year issue or is this a longer term development in your opinion? Thank you.

Alex Wynaendts - *Aegon NV - Chairman and CEO*

Yes, on the, your question how much capital has been released, I just to make sure we clarify that I mentioned economic capital. And that means that on, so Solvency I and what's reflected in IGD, you will see no impact. On an economic capital basis we have not shared the amount of capital released, but you can think in the terms of a couple of hundred million.

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

Okay. And in terms of basically the business opportunity for you guys in the Netherlands, how big do you see it and what's timeframe we're talking about?

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

What we see is a large opportunity. We still have around 500 to 600 individual pension companies here in the Netherlands which are linked to corporates. And as you can imagine many of them are too small to survive in a world where regulatory requirements are significantly higher, the qualifications of the members of the Boards are much higher. The capital position on Solvency is clearly under pressure. So there is a trend which we have seen actually start already a couple of years ago where these companies pension funds either merge together or they get taken over by bigger, independent pension funds. But also increasingly they are moving to insured solutions, which are offered by Aegon.

Now that trend has been somewhat stopped by the fact that a number of these pension funds were below the coverage ratio of 100, which meant that they did not have enough assets in order to meet their liabilities and that makes it therefore somewhat difficult to transfer this to an insurance company because then there is a shortfall. So if you have 90% or 95% of coverage that means that your pensions, if you then move to insurance company, that then the payment for the remaining period would be also 90% to 95% of what is expected. So what I see happening is that once hopefully markets improve somewhat and that the coverage ratios get closer to the 100 then you will see a pickup of that activity.

And that's exactly the reason why we want to be ready. That's the reason why we put in place this derivative transaction in order to reduce our longevity, but effectively to increase our capacity to be a player in this market for the moment that these coverage ratios get closer to 100 and therefore pension funds are in a position to move towards insured solutions like the ones we have provided by Aegon.

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

Okay. Thank you very much.

Operator

Thank you. The final question comes from [Lemer Salah]. Please proceed with your question.

Lemer Salah ***Analyst***

Good morning gentlemen. Thank you very much for the opportunity. Three questions from my side. First of all, which incentives will actually bring Aegon into action to change its hedging strategy for US variable book?

Secondly, you have stated that you have re-priced your products in the US. Is that solely depending on the market circumstances, or are you also looking at a certain peer and who is that peer whom you are looking at?

And third of all, thirdly, what is the current status of cross-selling and life and protection in the US? And when do we see this scaling impact in the life and protection portfolio? Thank you.

Alex Wynaendts - ***Aegon NV - Chairman and CEO***

Thanks. I'm not sure I exactly understood your first question. You mentioned hedging and you were asking what incentives we would need in order to change our hedging? So maybe you want to explain what you mean.

Lemer Salah ***Analyst***

Actually I mean for your variable annuity book, I presume at a certain point you're considering to maybe to move to a more static or another kind of hedging program. Is there a reason at this moment in 2012, at the inception of 2012 to change your hedging strategies for your variable annuity book?

Darryl Button ***- Aegon NV - CFO, Americas***

This is Darryl. Maybe I'll take that one. We really have two fundamental variable annuity hedge programs. We have the pre-2003 product and we have the post-2003. And the post-2003 is the GMWB product. The guarantees are carried at fair value. The hedges are at fair value. It's a dynamically traded hedge program. We re-balance daily on that one going forward. In terms of the back book, that's where we put on a macro hedge. I would say there that the accounting is not fair value so we do have some valuation differentials between the derivatives that are used to hedge that and the accounting on the back book.

There is no real plans to fundamentally change either program. We continuously look at the new products that we are putting on and the new hedge programs going forward in terms of extending into additional (inaudible), into -- we've done some volatility hedging more recently as it relates to the GMWB program. We're constantly looking at basis risk and how to fine tune those hedges going forward, but there's no real fundamental change I would say anticipated there. In terms of -- yes, so maybe that's the first question.

In terms of the -- I think you -- I'll jump in on the second question too, re-pricing in the US products, is that market driven or peer driven. The reality is it's both. We've been re-pricing both VA and life products for the low interest environment really steadily over the last couple of years. We've had to do it again because interest rates dropped further in the last half of 2011. We are constantly looking at our competitive position as well as our profit thresholds. What I would say is that we have a tendency to look at our profitability and make the move faster than the industry. So we will see that slowdown in sales as we do that pricing activity.

And I must --

Alex Wynaendts ***- Aegon NV - Chairman and CEO***

Yes, what I'd like to say, to add here, we have been consistent with our strategy in terms of pricing. Our strategy has to be to price the products on a competitive basis while we can and also to make sure that we are profitable. And that's very consistent here and that's why we are looking for different ways of looking for the right segments in variable annuities. We are re-pricing our life products. They need to be profitable. We also need to maintain and protect our franchise so sometimes it's a bit of a timing impact. But by and large it is a consistent strategy of selling profitable products to the right customers, and that's what you see here.

Lemer Salah ***Analyst***

Okay. Thank you. And coming back to the second question, you mentioned it's a mix of both so market driven and peers. Are you looking at a second tier of peers, number five up to 10, or is it number one up to five?

Darryl Button ***- Aegon NV - CFO, Americas***

There is no question in the variable annuity space we are looking at the second tier. We are not trying to compete with product for the top five peer companies there. On the life side it depends, it depends on product. So when you have less interest sensitive products, like term or supplemental health, we look to be in that sort of that top five category, never leading on price but somewhere in the top five. When you get into the more interest-sensitive products, universal life secondary guarantee, that's where we've chosen to drop into the second tier for comparative and pricing purposes.

Alex Wynaendts ***- Aegon NV - Chairman and CEO***

Yes, I would like to thank you all for your continued interest in Aegon. Thank you for joining this call and look forward to seeing all of you in the near future. Thank you very much.

Operator

Thank you. This concludes the Aegon fourth quarter 2011 results analysts and investor conference call. Thank you for participating. You may now disconnect.