

Market conditions

AEGON's main markets are the United States, the Netherlands and the United Kingdom. Together, these markets account for more than three-quarters of AEGON's business. Over the past decade, the company has built up operations in new, emerging markets.

AEGON is present in six countries in Central & Eastern Europe, as well as China, India and Japan in Asia, and Brazil and Mexico in Latin America. AEGON is also one of the leading providers of life insurance in Spain and has a partnership in France with insurance and pension specialist AG2R La Mondiale.

During 2010, market and financial conditions continued to improve, following the upward trend that started in 2009. Equity markets continued to rise but remained volatile, while corporate credit spreads remained fairly stable. This had a positive impact on AEGON's earnings and capital position. Sales of equity-linked products benefited from positive sentiment on equities. AEGON saw improved sales on variable annuities and mutual funds as equity markets further improved.

Global interest rates were under pressure during the first nine months of 2010, following concerns about sovereign debt in a number of peripheral European countries. However, AEGON's exposure to the sovereign debt of these countries was, and remains limited. During the remainder of 2010, interest rates began to recover but did not reach the levels of the beginning of the year, but generally have a negative impact on AEGON's businesses.

As part of new pension legislation in Hungary, mandatory pension fund assets have been taken over by the Hungarian State during the first quarter of 2011. In addition, asset management and administration fees have been reduced.

In Poland, the Government plans to amend pension fund legislation as well. The main changes would be a lower contribution fee, special requirements on minimum mandatory capital and solvency margin, and the creation of three pension funds with distinct risk profiles (conservative, balanced, aggressive).

AEGON expects these government measures in Hungary and Poland to have a combined negative effect on underlying earnings of approximately EUR 25 million for the full year of 2011.

In Spain, the financial sector is undergoing significant consolidation and restructuring. Consequently, a number of the country's savings banks are in the process of either merging or entering into so-called integration agreements (SIPs). AEGON remains committed to the Spanish market and intends to maintain its current share of the bancassurance market there.

Despite the improvement in 2010, market conditions remain uncertain with growth still hampered by high unemployment numbers and household debt levels. AEGON expects market conditions to remain uncertain throughout 2011.



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