

Q1 2017 Earnings Call

Company Participants

- Alexander Rijn Wynaendts, Chief Executive Officer, Chairman-Executive & Management Board
- Matthew J. Rider, Chief Financial Officer and Member-Executive Board
- Willem van den Berg, Head-Investor Relations

Other Participants

- Albert Ploegh, Analyst
- Arjan van Veen, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Farooq Hanif, Analyst
- Farquhar C. Murray, Analyst
- Gordon Aitken, Analyst
- Nadine van der Meulen, Analyst
- Nick Holmes, Analyst
- Robin van den Broek, Director Benelux Financials
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Please go ahead.

Willem van den Berg {BIO 15203834 <GO>}

Good morning, everyone, and thank you for joining this call on Aegon's First Quarter 2017 Results. As always, we will keep today's presentation short, leaving plenty of time to address all your questions. We would appreciate it, if you take a moment to review our disclaimer on forward-looking statements, which you can find at the back of this presentation.

Our CEO, Alex Wynaendts, will first provide an overview of our performance, and will then be joined by Matt Rider to answer your questions. Matt will be formally appointed as Group CFO at next week's AGM, subject to approval by our shareholders.

I'll now hand it over to Alex.

Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Thank you, Willem, and good morning, everyone. Thank you all for your continued interest in Aegon and for joining us for our first quarter 2017 earnings call, and I'm recognizing that many other companies are also reporting today, so thank you for being with us.

So, let me begin by providing you with a brief overview of the key developments this quarter. Underlying earnings increased 6% to €488 million, driven by the continued successful execution of our expense reduction program and by higher fee income resulting from growing our balances.

Our Solvency II ratio remains stable at 157%, as capital generation in the quarter offset the acquisition of Cofunds and the final 2016 dividend. Following the acquisition of Cofunds, we became the largest retail platform in UK, and the additional gross deposits generated by the new business contributed to an 11% sales increase in the quarter for the group.

Let's now take a closer look at our underlying earnings for the quarter on the next slide. Turning to slide 3. We continued to see the earnings momentum of our underlying businesses improve across our company as we increasingly benefit from the management actions we have taken. One of the main drivers for increased earnings is the continued successful execution of our expense reduction program. Since the launch of the program last year, we have achieved run rate expense saving of approximately €160 million and I will elaborate more on this program on the following slides.

Another positive development for operating results is the continued growth of our fee-based businesses, which as a result of continued favorable equity markets and increased scale led to higher fee income. These positives were only partly offset by the adverse claims experienced in our U.S. business, driven by adverse mortality, which was in line with our expectation for seasonality and one-time items.

These one-time items include the impact of lower reinvestment yields and an adjustment to better reflect the timing of the payment of trail commissions on variable annuities. In addition, earnings were also impacted by low performance fees from Aegon Asset Management and by lower investment income in the Netherlands, as a result of accelerated pre-payments and interest rate resets on the mortgage portfolio.

Let's now move to slide 4 and zoom in on our expense savings program. As I mentioned earlier, we continued to make good progress on our expense reduction program and we are well on track to reach our target of €350 million by the end of 2018.

In the first quarter of 2017, we achieved additional run rate expense reductions of €50 million across the group and these were mainly realized in the U.S. This brings our total run rate expense reductions to €160 million, of which €130 million from the U.S., €25 million from the Netherlands and the remainder from the holding. We're well on track to reach our €350 million target by the end of 2018.

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As you can see on the slide, core operating expenses on a rolling four quarter basis continued to decline as a result of our expense reduction program. These savings not only enable us to improve returns, as per the previous slide, but also to fund acquisitions in key business lines in the U.S. and the UK.

Acquisitions such as the DC business of Mercer in the U.S., the DC business BlackRock and Cofunds in the UK, are all good examples of our continued focus on shifting to fee business; second, our ambition to offer a full suite of products to our customers; and finally, our drive to achieve the scale that is so important in today's competitive environment.

In addition, expense savings we are making allow us to invest in capabilities to create a differentiated digital offering, in particular, investments in new, digital solutions in the workplace that are focused on the strong link between retirement plan participants' wealth and health.

I would now like to turn to slide 5, which shows the development of our net income. As you can see, net income was strong for the quarter, amounting to €378 million. Net income increased from the first quarter of last year as a result of strong underlying earnings of €488 million, while non-underlying earnings increased to €49 million, as fair value items improved significantly compared with last year to a loss of €53 million. This loss was mainly driven by hedges put in place to protect our capital position. These were partly offset by positive real estate revaluations in the Netherlands.

In the first quarter, realized gains amounted to €76 million and were primarily a result of the sale of sovereign bonds in the Netherlands for ALM purposes. €11 million of impairments reflect the continued benign credit environment, while the results from one-off business increased to €31 million due to a one-time benefit in the BOLI/COLI business.

Let me now turn to our growing revenue generating investments, deposits, in the next slide, that is slide 6. Gross deposits of €34 billion continued to be strong across all of our businesses, driving total revenue generating investments to a record of €847 billion at the end of the first quarter. The 13% increase in gross deposits in comparison with the first quarter of 2016 was mainly due to significantly higher UK platform deposits with the recently acquired Cofunds platform adding over €6 billion in gross deposits.

Although Asset Management's flows were lower this quarter, a particular highlight is the continued strong inflow into our Dutch Mortgage Fund. The size of the Fund is now over €10 billion and it ranked among the top 10 best selling investment funds in Europe in 2016. The Fund is also a good example of the close cooperation between our Dutch and our Asset Management businesses where the first has the origination and underwriting capabilities and the latter the structuring capabilities in the relationships with institutional investors.

By combining the strength of both, we're able to earn an attractive total fee of around 35 basis points of the full lifetime of these mortgages. This quarter, we saw fewer retirement plan takeover deposits and reduced demand for variable annuities and mutual fund

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deposits in the U.S. Net deposits in our U.S. retirement business remained positive at over \$600 million., this, despite further contract discontinuances that were anticipated following the acquisition of Mercer's defined contribution business. We expect this trend to continue in the coming quarters.

Net outflows for the quarter amounted to €6 billion and were mainly driven by the termination of an asset management contract in the UK related to the Guardian business that we sold some five years ago.

I would like to now provide an update on the transformation of the UK business on the next slide. In 2016, we announced a series of transactions in our UK business. Divesting our annuity portfolio in two tranches, and acquiring Cofunds and BlackRock's DC business. These have enabled us to accelerate a strategic transformation of our UK operations from a traditional life insurance business into a scalable digital platform business. And we are now ranked number one in the retail platform market and number three in the workplace savings market.

Following the acquisition of Cofunds, which has £87 billion of assets, our combined platform exceed £100 billion of assets and serves more than 1.2 million customers.

Total inflows on our investment platforms in the UK amounted to £7.3 billion of which £5.4 billion were generated on the Cofunds platform. These were primarily to institutional clients, which can be lumpy from quarter to quarter. And £1.9 billion of inflows in Aegon's own platform, which now has over £15 billion of assets, confirming it as one of the fastest-growing in the marketing.

Replatforming of Cofunds and the integration of BlackRock's defined contribution business are on schedule to be completed in 2018. In addition, we're on track to close the Part VII transfers for both tranches of the annuity portfolio by the end of the third quarter of this year, which is expected to result in a dividend from the UK to the holding in the fourth quarter of 2017.

Let me now turn to the next slide, where we'll take you through our sales for the quarter. This is slide 8, where you can see that new life sales declined by 8% to €246 million, driven by lower term life and indexed universal life sales in U.S. and lower sales of life products in Europe.

We are currently taking management actions to streamline the application process for indexed universal life product in the U.S. and preparing with new product launches, which we expect to benefit sales in the second half of this year. Lower sales in Europe were partly the result of the divestment of the UK annuity book. In addition, we continue to see a shift towards fee-based solutions in the Netherlands, which led to lower pension sales.

Higher sales in China were the result of successful launch of the critical illness product. Well, although (11:28) life sales were down year-on-year, the margin on the new production continues to improve as we benefit from higher interest rates and a strict pricing policy.

Finally, accident & health sales increased by 4%, as sales in the Netherlands improved following the launch of a new disability insurance product, and as a result of favorable currency movements in the U.S.

Let me now turn to our capital position for the group, slide 9. As you can see, our Solvency II ratio remained stable at 157%. This quarter, capital generation of the operating units, excluding market impacts and one-time items, amounted to €0.3 billion and added 2 percentage points to the Solvency II ratio for the group after holding expenses.

Positive market impacts and one-time items also added 2 percentage points to the ratio, were mainly related to positive credit spreads and interest rate movements in the Netherlands. This offset the negative effect from the change in the calculation, the risk margin on the Dutch ratio at the end of 2016, bringing the ratio back to approximately 140% as at the end of the first quarter of this year.

Positive one-time items were mainly driven by a change in the reserving methodology for high net worth business in Asia, is to better match the valuation of liabilities with the assets. Change led to an increase in the excess capital position in Asia. These positive impacts were offset by the accrual for the final 2016 dividend, which will be paid in June, and by the acquisition of Cofunds, which reduced UK ratio in the quarter to just under 150%. And I would like to highlight that in the U.S., the RBC ratio remained stable at around 440%.

On the next slide, I would like to take a moment to update you on the capital position in the Netherlands, slide 10. We recognize the need to further improve the capital buffers in our Dutch business and intend to do so through a number of management actions, as we are committed to maintaining an adequate level of capitalization for our Dutch business. In light of this, we've downstreamed €100 million of capital into Aegon Leven from the Dutch holding company during the first quarter of 2017.

Management actions were broadly into three categories. First, improving the risk profile through measures such as optimizing ALM and hedging while at the same time also enhancing our internal models. Second, we continue to review our global portfolio business to ensure that they all meet our financial and strategic objectives and to ensure our use of capital is optimized. Third, we continue to support our Dutch business as a core part of the group.

As I shared with you during the fourth quarter results call, we are working with our regulator to clarify a number of outstanding issues, including loss absorbing capacity of deferred taxes, LAC-DT. And we will provide you a comprehensive plan, precisely what actions we'll take to improve the Dutch capital position with our second quarter results on August 10.

Let me now conclude, we continue to see strong sales growth throughout the group in excess of our 10% target, driven by a strong increase in gross deposits. We have achieved a run rate expense savings of €160 million, which show that we are well on track to deliver our €350 million expense savings target by the end of 2018. And I would like to reiterate

our commitment here to returning €2.1 billion to shareholders over the period of 2016 through 2018. And we remain confident that we'll continue to make significant progress towards our targets.

Matt and I are now ready to take your questions. Thank you.

Q&A

Operator

We will now take our first question from Robin van den Broek of Mediobanca. Please go ahead.

Q - Robin van den Broek {BIO 17002948 <GO>}

Yeah. Thank you. Good pronunciation as well. Unsurprisingly my first question is related to the capitalization of the Dutch unit. As you indicate in your slides, it seems that the market appreciation of your Solvency II ratio is predominantly driven by the Netherlands. So, I was wondering if you could give a pro forma ratio for Q1. And connected to that, you mentioned on your slides that group support could be a potential management action, and I was wondering what could that be. Should we get worried about potential dividend cuts or capital market actions? Or do you think you can solve it without affecting that?

And second on the U.S. tax reform. I think if that would go through, there will be an impact on DTA write-offs and potentially a higher required capital in the U.S. What kind of actions can you do there apart from operating at a lower RBC ratio and potentially lowering the calibration ratio with the Dutch Central Bank? Those were my questions. Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yes, Robin van den Broek. Hopefully, is well pronounced too. (17:46) as I indicated in my words, the Dutch ratio at the end of this first quarter of 2017 is around 140%. And actually has benefited from improved market conditions, as you know, rates in the Netherlands is slightly higher and we've seen some positive developments as well.

I would like to repeat here that we have committed to providing you with a comprehensive overview where we are on our Dutch capital position at Q2. We have to go through a process, by the way, also working closely with our regulator. There is a quite a number of outstanding issues and I mentioned one of them in my speech that is the LAC-DT where we are sure that we have the right interpretation. It is complicated.

And I've given you an overview of the three steps and actions which we are taking. The first one is to look our sales (18:39) and where we can optimize ALM, where we can put hedging in place in a most effective way. We're also looking at our internal models, if they all reflect properly our risk. And as you can imagine, that does take time and we have to ensure that we work closely here with the regulator.

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The second point is that we also want to be looking at Aegon NL as part of a group and Aegon NL is not a stand-alone business. And that really is what I meant by talking about overall group support. You can imagine the way we look at Aegon NL as part of the group, where the Netherlands reflects 20%, 25% of the total, would be very different than if Aegon NL would be standing on its own.

In this context, we continue to be looking within our group at all the pieces of our portfolio to ensure, as I said earlier, that they all meet our financial and strategic objectives and we also want to make sure that we are deploying our capital in the most effective way. So, Matt, would you please take the second?

A - Matthew J. Rider {BIO 20002664 <GO>}

Yeah. On the tax reform, it may be good to start with our current U.S. RBC ratio is sitting at 440% or so, at the top end of our range. I think you have it exactly right. If there was a reduction in tax rates, then we would see a reduction in the amount of DTAs and, clearly, an increase in the amount of required capital that we would have to hold as that's done on an after-tax basis.

I think it's a little bit preliminary to talk about the actual impacts on our RBC ratio given that there aren't too many details around this yet in the market. Probably, good to say that if there was a tax reform plan, all U.S. life insurance companies' RBC ratios would come down, we would be no different than anybody else.

I think there would be a level setting effectively of RBC ratios and what people think are adequate capitalization levels in the U.S., and we would be no different, we would be no different than anybody else. I think importantly, though, if there was a tax reform plan that lower taxes, then ongoing capital generation would, of course, improve. So that's good for the industry.

Q - Robin van den Broek {BIO 17002948 <GO>}

Okay. And then maybe the €100 million capital injection in the Dutch unit, was that already included in the pro forma number of - in the number at year-end or does it also affect the 140% you just mentioned?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

The 140% is at the end of the first quarter of 2017. And by the way, it's an approximate number. As you know, we have said that we would not be giving any more Q1 and Q3 explicit details on all the Solvency ratios, capital ratios of our business units. But a view, of course, of the ongoing discussion around the Dutch, we felt that we should give you an indication.

Q - Robin van den Broek {BIO 17002948 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Ashik Musaddi of JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning. Ashik here. Just couple of question. One on the Dutch Solvency I'm afraid again. So, you mentioned that you'll give us a plan in the second quarter. But how should we think about Dutch ratio? First of all, what's your hurdle there? And secondly, would you always look at the Dutch ratio with the UFR impact that is going to happen like from 420 basis point to 365 basis point, or would you not care about the fully loaded UFR impact at the moment and that's how you look at it? So, as a management team, how are you going to look at the Dutch ratio with UFR, without UFR? It would be great to get some color on that.

Secondly, on your - just going back to the DTA in the U.S. I mean, you mentioned that the whole industry RBC ratio would come down, but, I mean, we have seen the same thing in the banking space as well because of lot of concerns around capital, I mean, strip ratios, et cetera. The Dutch - the banking sector also kind of suffered, that everyone went down but because regulators have said that you need higher capital, we have seen the pain that the banking sector has gone through over the past two, three years to recapitalize to a very, very strong level.

So, is it possible or are you seeing any sort of scenario where because of ratios coming down, you still need to take it back to a strong 400%, 450% ratio? Any sort of discussion that is going on, would be great. Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Matt?

A - Matthew J. Rider {BIO 20002664 <GO>}

Yeah. I think just in terms of the Solvency ratio and whether we look at the UFR and without UFR, yes, we do. Our target zones that we have for the legal entities, we have at 130% to 150%. However - and that is, of course, with the UFR included in it. But we do look at it without the UFR as well. And that's something, with the new release from EIOPA, we're going to have to carefully consider.

On the DTA and, let's say, the impact on RBC ratios throughout the U.S., I think far too early to talk about what would be the impact of these things if tax reform did come into play.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thanks a lot.

Operator

Our next question comes from the line of Nadine van der Meulen of Morgan Stanley. Please go ahead.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Good morning. Two questions from my side, please. Firstly, you mentioned, sorry, again, on the Netherlands. You mentioned the 140% at the end of the first quarter. The €100 million injection, did that take place during the first quarter? That is the first question.

And on the capital generation in the Netherlands, would you mind giving us an update? I think the last you said about that was sort of guiding around the €225 million, I'm not sure if that has changed at all or not.

And the second question I have is in the UK, you've previously guided to a dividend upstream from the UK this year. Would you mind giving some detail around the timing and the potential magnitude of these dividends to be upstream from the UK? Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Hi, Nadine. Your question is, is the €100 million included in the 140% at the end of Q1? The answer is yes because we injected that in Q1. And as you remember, we've mentioned that we have in the Netherlands a number of legal entities. We have Aegon Leven into which we injected €100 million. We have Aegon Schade, that's a non-life business for the English-speaking. We have Aegon Mortgages and we have Aegon take or pay (25:40) which is pension unit and all of the three other entities actually are very well-capitalized and allowed us, in fact, to take a dividend out of it because they were overcapitalized.

Now, your - capital generation in Netherlands. Yes, I can confirm that the €225 million normalized capital generation for the Netherlands is still the right number. And in terms of the UK dividend, I'll remind you that we indicated that we expect that the capital that was freed up from the two annuities is around €500 million and that we would expect that a third of it, roughly 30% of it, would be available to be dividended up to the group. And I repeat what I said earlier, we expect this to take place at the end of this year.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Very clear. Thank you.

Operator

And the next question comes from the line of Albert Ploegh of ING. Please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning all. Thanks for taking my questions. Yeah, sorry, also to come to the Dutch business. I understand that the plans will be shared in detail in the second quarter. What I like to know is, yeah, what kind of time lines on execution should we expect? Is the working thesis really to be at your comfort zone levels by the end of this year? And in relation to that is basically also embedded the question on, yeah, what to expect in terms of paying up a dividend again from the Dutch units for 2018. Is that still the working thesis currently?

And I also had a question on – I saw also some changes to the reserving in Asia, which had positive impact, I think, also in the quarter on Solvency, and offset with some non-admissibility of U.S. DTAs, maybe you can give a little bit of color around those too as well? Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah. We intend really to provide you clarity at the Q2 results, which is early August, Albert. And I think it's too early to say now more about it. And of course, we would like to implement as soon as possible. We wanted to have our Dutch business on a sustainably basis capitalized and a business that is a mature business that is also able to pay, and capable of paying dividends. In terms of Asia, I think it's very much in line what I've been saying for some time.

We're looking at optimizing our portfolio, and also how we employ capital – deploy capital in the most effective way. At the end of last year, I did inform you that we had put our direct marketing business in run-off. That means that we're trying to maximize now the cash flows that are being generated by that business. That's one of the elements of improving capital position in Asia.

And the second element is that we have this high net worth individual business, which is a business with branches in Singapore and Hong Kong, which operates out of Bermuda, it's a Bermuda-based company. And we've seen that we were able to actually avoid unnecessary use of capital because of multiple layers of regulation, as you can imagine, Bermuda, Hong Kong and Singapore, and therefore has as such created a position of excess capital in Asia.

In terms of the DTA, Matt, would you like to...

A - Matthew J. Rider {BIO 20002664 <GO>}

Yeah. Let me take that one. So, the Asia thing is a change in the reserving basis to better match the nature of the reserves with the way that we value the assets, and that resulted in about a €265 million improvement. And then on the DTAs, there is a limit to the amount of DTAs that are admissible in the U.S. it's limited to about 15% of surplus, and we had DTAs that moved into that zone and that loss was about \$170 million in DTA admissibility.

Q - Albert Ploegh {BIO 3151309 <GO>}

Great. And maybe one small follow-up on the DTAs. I mean, if you look at the annual report, I think you split out your Tier 3 bucket, it's, I think, roughly €1.6 billion. Can you confirm that that is 100% U.S. DTAs or is there anything else in there as well?

A - Matthew J. Rider {BIO 20002664 <GO>}

Sorry, I missed the – can you repeat the question, please?

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah. So, in the annual report, the Tier 3 capital bucket is roughly €1.6 billion and I would like to know whether that is indeed 100% U.S. DTAs?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

That's the majority but we can follow-up with details.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. No worries. Thanks.

Operator

The next question comes from Farooq Hanif of Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. On the €100 million in the Netherlands again, still just slightly confused. So, you moved money from one of your three companies essentially via the holding into another. So, did the Solvency ratio actually change for NL because of that movement? And if it did, what was the actual percentage point impact on the 140%, if you're able to give that now? That's question one.

And question two, you mentioned looking at the portfolio. So, you've done a lot of transformational things to shift to fee-based business. Can you talk about other areas of your business you think you still need to do work from an M&A point of view? And could you also talk about what you'd be willing to sort of give up in your portfolio to support capital? Thank you very much.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Hi, Farooq. Just to be absolutely clear, the capital that was injected was injected in Aegon Leven, which is a part of Aegon NL. So, yes, it is in the 140%, but it did not change the ratio because it moved from one part of Aegon NL to another part. It moved from the part that is overcapitalized, which I mentioned earlier, to Aegon Leven, which is the one where the ratio clearly is lower than it is for the rest of the businesses. So, from Aegon NL point of view, you don't see a change on the consolidated basis, because we move from one to another one. And Aegon Leven is capitalized at a lower level than Aegon NL and that varies over time, but you could say that's around - right now, it's around 15% points of difference.

In terms of portfolio, your second question, we are looking on an ongoing basis at the portfolio, as you know. You also know that we have our run-off businesses that we've been very clear that we would be, like, looking forward to exit, but only at the condition that we are able to achieve good proceeds, proceeds that we do believe reflect the value of the business. And we've also said that when interest rates would start moving up, that environment we're looking at doing a transaction in such an improved interest rate, clearly is improving.

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At the same time, I've always been and also very clear that we look at all our businesses and ensure that they have to meet our criteria also of scale. Scale is very important and is more important day-by-day in our businesses. So, if we come to the conclusion that we are not able to achieve the necessary scale or that it will take too long to get there, then we review the different options. And as you can imagine, there are various options there. And this is part of a process which we will continue to be doing and I think we've been pretty clear that those businesses that don't have scale, clearly are those ones that we will start reviewing first.

Q - Farooq Hanif {BIO 4780978 <GO>}

And may I just ask one follow-up question on the run-off businesses. Is a large part of your DTA in the U.S. tied up in the run-off, or is it a small proportion?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Matt?

A - Matthew J. Rider {BIO 20002664 <GO>}

Yeah, we're going to come back to you on that with further detail.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much. Thank you.

Operator

Thank you. Our next question comes from the line of Nick Holmes of Société Générale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hello. Hi there. Thank you very much. Couple of questions. First one, just wondered whether AXA's decision to IPO its U.S. operations makes you want to consider whether your primary listing might perhaps be better in the U.S. I mean, obviously, there's a clear regulatory divergence between the U.S. and Europe, and I wonder what your thinking is there? Then, just wanted to ask again on the U.S. run-off business, you're clearly looking at the options here. Is there anything you can tell us that might happen this year? Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

On your first question, Nick, yes, it was an interesting development, which I think we all saw yesterday. Let me reassure you here that Aegon - the U.S., our U.S. business Transamerica is a truly core part of our business and has been contributing very significantly to our - and continues to contribute in the future, and we expect this to continue to be the case going forward.

In terms of the run-off business, I would have loved to give you more information, and I'll promise you that as soon as we have an information we can share, we will share that with

the market. But what I did say to you is that the environment has been improving, has been improving as a result of higher interest rates. So, we're working in order to try to get a good outcome for all of us and our shareholders.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. That's great. Thank you very much.

Operator

The next question comes from the line of William Hawkins of KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hey there. Sorry to keep coming back to the Netherlands, but it does seem to be affecting your price through the call. I'm just interested - I know you've already talked about this slightly, but can you just be slightly clear about what you mean by group support, when you're thinking about management actions? From my understanding of Solvency II, a simplest interpretation of group support is that you raise leverage and downstream that to the subsidiary as equity to support subsidiary Solvency ratio. And from my assessment, you don't really have too much flexibility to be doing that, but maybe I've underestimated the flexibility of the overall group.

But equally, group support can be interpreted in a different way, like, because you've got the support of the group, you could be happier with a lower Solvency ratio in one subsidiary, because the group is all around it. I'm sorry to come back to it, but I think it is an important couple of words. Could you just help me understand the definition of group support?

And then secondly, I'm going to dare to ask if you tell us what the UK Solvency II ratio was at the end of March, just to complete the chain of that. More importantly though, could you just remind us - you've given helpful comments around the dividend at the end of the year, but I just wondered if you could remind us, the transactions that are still to come, what could be the percentage point impact of those, the Part VII transfers and the other things. So yeah, the timing on the other elements affecting the UK Solvency II ratio? Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah, Bill, I think you have actually given a very good explanation yourself of what group support is. As I was trying to say, we need to look at Aegon the Netherlands as part of a broader group, a well-diversified group with more sources of cash flows to the holding to support expense of the holding, including, of course, dividends but also the payment of leverage. So, we'll be looking in terms of group support at least in a broad way. And again, it's too early now to me to speculate about it. We will come back in Q2, and I promise we will come back in Q2.

In terms of the Solvency, what I did say in the call was that our Solvency in the UK is just under 150%. And this is the result, or I should say, or includes the fact that we have

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included in this number the full acquisition of Cofunds, which was just under £150 million at the end of last year. And the effect of cost reductions that is going to come because of the restructuring and the integration of Cofunds will come later this year, as will come the impact of the Part VIIs, which we really hope will be concluded somewhere in the third quarter. And the moment it get concluded in the third quarter, it will allow us to be in a position to pay a dividend and that will be, in this case, a dividend related to the transactions of selling the annuities, and that will be at the end of the year.

By then, our base case assumption is that Aegon UK is sufficiently well-capitalized that it will be able to support paying a dividend on an ongoing basis going forward, based on the cash flow that it's generating from its business, which has now become very much a fee business and therefore, much more predictable.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Thank you. I'm sorry, I missed the £150 million when you said it in the call, so apologies for that. I'm sorry, I'm still back on the group support. Could we actually be considerably raising the leverage of the overall Aegon group or are we just talking about managing capital within the Aegon group?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Well, again, I've said what I want to say about this right now. This is part of a broad process that we're looking. It's a broader process for the Netherlands, for the group, but I was trying to make the point that we should not be looking at Aegon the Netherlands on an isolated basis. And we should be looking in the context of the group, including also the strength of the group, and we'll come back in the second quarter.

Q - William Hawkins {BIO 1822411 <GO>}

(39:34), Alex. Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Thank you.

Operator

The next question comes from the line of Gordon Aitken of RBC. Please go ahead.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning. Thanks. I've got three questions, please. First, in the U.S., there is a mortality charge which is even (39:50) higher than last year. Just wondering what mortality table you are using for reserves and does it reflect the latest pick up in debts that we've seen around the world?

Second question, in the UK, obviously, you recently acquired Cofunds. I see the gross flow number for Cofunds. Could you just tell us what the net flow figure was in the first quarter? And the final question is about your capital in the UK. So, the proceeds from the

annuity book sale, you said were €500 million and I'm just wondering what the capital backing the annuity book was, because the usual guide that companies tell us here is €100 million and €200 million (40:25) generally, it's about a 10% capital requirement and you had a €9 billion book, so 10% of that is €900 million. So, if you can explain the difference between €900 million and €500 million, that would be great? And also, you've said that €350 million remain in the UK and I just need - if you could just be clear as to what that will be used for? Thanks.

A - Matthew J. Rider {BIO 20002664 <GO>}

Maybe on U.S. mortality, I think first of all, it's not a - let's say, a standard statutory published mortality table that we're using for our IFRS results. These are pricing mortality tables. These are based on our own expectations based on, for example, what we've seen in smoker/non-smoker differences and preferred differences and those kind of things. So, it's our own Aegon-specific mortality table. And that's why we look at it in terms of actual-to-expected and not as percentage of some other mortality table that's a standard publication that really is refined based on our underwriting standards.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah, in terms of net flows in the UK, we had around €300 million of net flows. As I did say in my text, the big part of the inflows we've seen in the significant amount is related to institutional business and that can be lumpy, as I mentioned. And we've seen this to be lumpy. I think what is important is that we are seeing net flow is in our business and start with gross flows, but also expected part of outflows which you see what is not abnormal when you do a transaction.

So, actually we are pretty pleased that the outflows that we are seeing of Cofunds actually have been lower than we were expecting, because of the movement of the transaction. So when it move to a new owner under Aegon, it's usually a movement that you see accelerate the outflows and we have seen less of that. So, I hope that answers your question.

In terms of the annuity book, let me take the question, since I was close to it a year ago. What we gave you is the number of capital that we have generated from the sale of the annuity business, that's the €500 million, of which we expect to upstream €350 million. I think it's very difficult to look at these businesses on an isolated basis, because it's part of the total portfolio. And if you want to get really much more detail, then we'll have to go back longer and that's something we should be doing with the Investor Relations separately.

Q - Gordon Aitken {BIO 3846728 <GO>}

But just on this point on what the €350 million will be used for in the UK that you are keeping in there?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

So, the €150 million will be paid in dividend and that means effectively that the €350 million stays in the UK and that is part of our overall total capital position. And that's why

we have a higher level now in the UK than we've had for many years before. Actually, we have a pretty significantly higher level, which were fee business only, which, as such, is (43:22) much less risk than the business we had before. If this is a level that allows us to be comfortable about an ongoing dividend, and I mentioned that to you earlier, to a previous question that our objective in the UK is not only to pay once a dividend, but to ensure that we pay dividend and have a sustainable basis for paying a dividend going forward.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks very much.

Operator

Our next question comes from the line of Arjan van Veen of UBS. Please go ahead.

Q - Arjan van Veen {BIO 5197778 <GO>}

Thank you. Just a point of clarification on - at the end of last year, you moved €100 million to the Netherlands holding company. And at that time you said, you would upstream that to the group capital, subject to the outcome of the review of the new DNB guidance on LAC-DT. So, I'm just curious, what specifically has changed since February that makes you move that down again, and would it be correct to read that through that there will be an adverse impact on your Solvency ratio from the LAC-DT review? So, that's my first question.

And as for the secondary part of that, your guidance for upstreaming from Netherlands has been 2% to 5% (44:35), but obviously, would it be fair to assume that that wasn't the case of 2016, also. We shouldn't be expecting anything at all in 2017? And would you restate that when you give us the capital plan in August?

And then one final question on the U.S., and just more of the capital plan as a whole. So, you've had two rating agencies move your outlook for the U.S. to negative outlook in the last couple of months. So, I'm just wondering whether your capital plan will also seek to address potentially some of their concerns to get those outlook revised back the other way? Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah. So I guess, on your first point, just to be clear, we did upstream dividends out of the non-life Dutch companies into the holding company at year-end 2016 and those were downstreamed into the life company for prudency reasons and not so much a part of overall LAC-DT review. We do know that we will get much clearer guidance and direction at 2Q, when we resolve the issue with LAC-DT with the Dutch Central Bank. But I think, it's a little bit too early to talk about the actions that we would take in terms of not paying dividend out of the Dutch entity or those kinds of things. This all comes part of the overall plan when we will release our figures for 2Q.

As far as...

Q - Arjan van Veen {BIO 5197778 <GO>}

You give an updated plan in terms of guidance?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah, exactly. Yeah, I think maybe importantly on the rating agency outlook, some of them have been concerned about earnings volatility and the like, and not necessarily a capital concern. So we'll be working closely obviously with the rating agencies to relay these concerns in the coming months when we go to various committees.

Q - Arjan van Veen {BIO 5197778 <GO>}

Okay. Great. Thanks.

Operator

Our next question comes from the line of Bart Horsten of Kempen and Company. Please go ahead.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning, gentlemen. I have a few questions, well, on deposits and margins in the U.S., still impressed by the gross deposit growth you get in the U.S., but if I look to the net deposits, so for regular - frequent quarters, it's close to zero or negative. Could you give an outlook there or what's going on there?

Secondly, on the margin development in some product lines for retirement plans, we saw margins creeping up to 14 basis points during 2016 and it was now back to 12 basis points in Q1. What's the outlook there? And the same more or less for variable annuities, where the margins dropped from 60 basis points to 48 basis points, and I was wondering what the outlook is there?

And one final question on your run-off portfolio. You've been looking to dispose them besides running them off and you related that also to the interest rate. So, could you indicate whether the interest rate environment is now interesting enough for you to look or to be successful in a divestment or do you need higher rates for that? Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

On your first questions, I'm pleased that you're recognizing the very high level of gross deposits, which we're seeing in our U.S. business. For example, in our retirement plans, which as you know is debt business and we're really trying to develop. We've seen over \$10 billion which is actually very much in line with what we had previous year. You're right to say that mutual funds and variable annuities have shown a little bit of lower level of new gross deposits. That's not surprising, because you need to see this in the context of the uncertainty around the DOL. As you know, the DOL rules have not yet been implemented. There has been 60-day extension period and in that uncertainty, what you're seeing is most customers and distributors are just being a bit more hesitant, so this very much should be expected.

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In terms of margins, it is difficult to look at them only in terms of basis points, because we see more and more that our business is now being a price on the basis of margin or revenue in plan (48:59) participant. We've guided you at the conference last year in New York that it's around \$60 per plan participant that we expect for this business. And this is also very much in line with our strategy.

As you know, we're trying to talk to you about moving - the way we look at our pension business, not as being an institutional asset management business, nor are we looking at plan participants that have saved together a significant amount over €220 billion (49:25) and that we know each individually will have to make choices. And we're trying to get much closer to these plan participants. So, the whole way we look at our business from an operational point, but also from a financial point of view is focused more on plan participants, a bit away from the margins.

Secondly, what you also see is that because of the acquisition of Mercer, where we have seen some outflows from existing customers, at the same time, we're extremely positive that now we are well positioned in all segments of the pension business. And the segment we were not present in before was what we called the jumbo case, the very large cases. And the acquisition of the Mercer business actually gave us that capability. And I'm very pleased to see that the pipeline of the big cases, the jumbo cases is clearly very much positive and strong, and that should be positive sign also going forward.

You asked me about the VA, I think you should take into account the one-time item that was mentioned by Matt earlier. If you correct for the one-time item, then effectively you are back at the 60 basis points of margin that you mentioned yourself earlier. And that remains kind of the trend we're looking forward. And in terms of the run-off business, I'll just repeat what I said earlier, we are very clearly looking at optimizing the value of this run-off business. We want to make sure we get a good price for it. And as I indicated, with rates moving above 2.25% to U.S. treasury, we're getting in the territory where it starts making sense to look at these transactions and we're working hard on it.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. And maybe as a final follow-up on reinvestment yields versus back book yields, could you give an update on where you stand there, right now?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

So, the first quarter, we had a reinvestment yield of 4.35% compared to 3.77% in the previous quarter, so over 50 basis points increase, which is very positive. The book value is - the book yield is around 4.7%, so you see we're getting pretty close to our book yield, and then rates have dropped a little bit recently, so I would say the 4.35% for Q1, at this point in time, is probably a little bit lower. It's around 4.2%.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

And we will now take our last question in the queue from Farquhar Murray of Autonomous. Please go ahead.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Morning, gentlemen. Just two questions if I may. Firstly, coming back to slide 10 and the Dutch solvency position. You referred to an - restoring an adequate level of solvency for the Dutch business. Would that adequate level still be the 130% to 150% target level kind of previously established, or is that part of your ongoing discussions with the DNB too? And then secondly, is there more to do in terms of optimizing between the Dutch subsidiaries? And perhaps on that, would you be willing to get the solo positions of those, i.e. Leven and Schade.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yes. On your first point of - sorry, the first question again? Sorry.

A - Matthew J. Rider {BIO 20002664 <GO>}

Is the range...

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yes. Sorry. Yeah, the range is currently 130% to 150%, but we're looking again at sensitivities in the capital. So that's part of the process that we're working through, but right now, we're not prepared to change those. We could potentially change them at - when we release the - our overall comprehensive plan in 2Q. And then in terms of optimizing the - yeah - sorry, the second...

A - Matthew J. Rider {BIO 20002664 <GO>}

It's about the other business units in the Dutch business. What are the ratios we'll provide there?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah. Well, you'll get that information on the 19th. We'll publish the solo entity solvency and financial condition reports on Friday, the 19th, so you'll be able to see those in English, in fact.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

But then, do you think there's more to do in terms of optimizing? Obviously, you've done €100 million between the non-life and the life, is there more you can do that?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah. Again, we will come back at 2Q with an overall plan.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Perfect. Thanks.

Operator

All right. Thank you everybody. Thank you for joining in and thank you for your interest, and I wish you a good day. Thank you. Bye-bye.

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