# Aegon NV Analyst & Investor Conference

## Company Participants

- Alex Wynaendts, Chairman and CEO
- Mark Mullin, CEO, Aegon Americas
- Michiel van Katwijk, EVP and CFO, Aegon Americas
- Willem van den Berg, Head of IR

## Other Participants

- Benoit Petrarque, Analyst
- Farquhar Murray, Analyst
- Heather Takahashi, Analyst
- Joel Gross, Analyst
- Mark Cohen, Analyst
- Nick Holmes, Analyst
- Steven Haywood, Analyst
- Unidentified Participant, Analyst
- William Hawkins, Analyst

## Presentation

### Willem van den Berg {BIO 15203834 <GO>}

Good morning, everyone. And on behalf of the entire Aegon team, welcome to Aegon's investor conference. In just a moment, our CEO Alex Wynaendts will provide you with a brief update on the Group strategy.

He will be followed by Mark Mullin, the CEO of our US business, who will provide you with detailed -- he will provide you with an update on how he and his team are accelerating the execution of the strategy and implementing a five-part plan to improve performance. The third presentation is around cash flows and returns and will be delivered by our US CFO, Michiel van Katwijk.

After the three presentations, there will be opportunity to ask Q&A. And obviously the rest of the day, there will be plenty of time to -- during the breakouts also ask questions to the US management teams.

And with that, I would like to hand it over to Alex.

### Alex Wynaendts {BIO 1821092 <GO>}

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Thank you, Willem. So good morning to everyone here and thank you for joining us in New York City. It's always good to see a lot of familiar faces. And thank you also to everyone: investors, analysts. And media listening in online.

So as Willem said, today our management team and I am looking forward to talking you through our strategy and sharing with you how we are positioning the Company for the future. And of course, particularly here in the US.

So first I will provide you with an update on the actions we have taken across the Group and will continue to take to deliver on the reaffirmed 2018 financial targets that we set out earlier this year in London.

Then I will hand over to Mark Mullin and Michiel, CEO and CFO of our US business, to discuss the steps that they and their management team are taking to improve returns, to enhance customer experience. And to accelerate the transformation towards One Transamerica. So following Mark and Michiel's presentation, there will be breakout sessions with members of the US management team to discuss key elements that are essential to meeting our 2018 targets.

So I am pleased with the progress we've made over the last couple of years, as we've transformed the profile of the Company from one focused on spread business to one focused on fee and protection businesses. This transformation made us much more resilient to some of the challenging market conditions we've encountered in recent years. But it also strengthened our balance sheet. So while we execute on the strategic transformation of our business, we are growing our business by focusing on addressing the needs of our 30 million customers worldwide through all stages of their lives.

And in order to deliver on our customer promise, we need to continue to improve the user experience and broaden our relationship with our customers. This enables us to capture a larger part of the value chain by expanding on asset management, administration, guidance. And advice.

And at the same time, we are implementing significant management actions to improve the profitability of our business while increasing capital returns to our shareholders. We have had a strong start here, as we have already returned EUR950 million to shareholders this year.

Part of these management actions is to increase our Groupwide expense savings program by EUR150 million to EUR350 million by 2018. And this substantial increase will come from our US operations.

As a result of the additional management actions we are taking, we are able to reaffirm our targets of delivering a 10% return on equity by 2018 despite the low interest rate environment, regulatory changes. And lower-than-expected profitability of our sales. In addition, our solid capital position and growth of free cash flows support delivery of our target to return EUR2.1 billion to shareholders by 2018.

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Let me now touch briefly on the strategic priorities introduced in January and share with you the progress we have been making. Aegon's strategic priorities across the Group remain the same. And for good reason, as they help us to stay focused. I don't intend to go in too much detail now. But let me just outline a few elements to highlight their importance.

Living up to our purpose to help people achieve a lifetime of financial security means offering the right solutions and creating a unique experience for our customers. By announcing customer loyalty, we create long-term value for both our customers and from the Company.

And Mark Mullin and his team will share more detail about how they will deliver operational excellence in the US by reducing complexity, by investing in technology, consolidating our footprint. And identifying further efficiencies, leading to the aforementioned additional cost savings of $150 million.

We also continue our cultural transformation program outlined in January to empower employees. Key to this is placing a greater emphasis on innovation, with the aim of developing products and services which we have the ability to quickly adapt and change for customer demands.

And for this reason, we will be focused on attracting talent in the areas of data analytics, user experience. And digital marketing. These roles will be essential for the continued rollout of additional strategy so that we can offer a fully digitized front-to-end service to our customers.

And while we are rolling out our digital strategy in all parts of our organization, we continue to actively review the businesses that do not fit our strategic objectives. And this leads me to the last of our four priorities. And that is to optimize our portfolio of businesses. And let me now focus on this priority in more detail.

As you will recall, I showed this slide in January of this year outlining the actions we are taking to accelerate the optimization of our portfolio. And the key actions we are taking include further divesting non-core businesses, continuing to announce backbooks and further optimize the value and optimizing capital accretions across and within businesses by focusing on those businesses that offer long-term growth potential.

These actions enable us to improve our positioning in each of our markets, further reinforce our business. And improve return to our shareholders. And I now would like to provide you with a brief update on the progress we've made so far.

And as you can see on this slide, we've made substantial progress in just 11 months. In the UK, we transformed our business from a largely traditional pension business to the leading platform business in the UK market, with approximately GBP100 billion of assets under administration.

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We achieved this by divesting in two steps our capital-intensive and sizable GBP9 billion UK annuity book and freeing up approximately GBP500 million of capital. And secondly, by acquiring BlackRock's defined contribution record-keeping business and by acquiring Cofunds.

And meanwhile, in the Netherlands, we successfully completed the divestment of our commercial line non-life business to Allianz. Furthermore, we continue to transition from a defined benefit to a defined contribution focused business.

The promising start of our general pension funds stop is yet another step to strengthen our position in the Dutch market. As for the US, I will leave it to Mark and his team to update you on the major transformation we are undergoing here to become a more efficient, more customer-centric. And fully digitally enabled organization.

As we've shared with you before, we are exploring various options to dispose of our US closed blocks and non-core businesses. And the recent rise in US interest rate has improved our prospects of executing on the potential disposal of these businesses. In our business in Central and Eastern Europe, Spain. And Asia, we continue to aim for scale and will pursue divestments if the required scale cannot be achieved.

We are pleased with the growth of our asset management business, which is successfully leveraging its skills to expand the third-party business. This business is an integral part of our ability to continue to grow earnings for our fee-based business. And this brings me to the next slide.

As you can see on this slide, since 2010, we have grown our fee business considerably and have nearly tripled the percentage of earnings derived from our fee-based businesses. Together, these businesses now manage or administer over EUR650 billion of assets, including the announced acquisition of Cofunds.

Focusing on growing our fee-based businesses has made Aegon less vulnerable to the current low interest rate environment and allows for a more efficient capital management, supporting our objective to increase our return on equity. And at the same time, we will continue to derive part of our earnings from scratch, while our protection businesses continue to be a key component of our portfolio.

We strongly believe that providing protection features broadens the scope of our relationship with our customers and provides Aegon with a distinct competitive advantage of those competitors that limit their offerings to pure recordkeeping or asset management services. And also from a Company point of view, it is our objective to maintain an appropriate level of diversification by maintaining the right balance between the various sources of income.

While the significant growth of our fee-based businesses contributed to the increase of our free cash flows from 2010 to the current level, they weren't the only factor, as deleveraging our balance sheet and expense savings were also major contributors to the improved free cash flow levels. In January, we laid out our capital generation plans. And



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today, we reaffirm our objective of increasing cash flows from 2016 to 2018. And this for three reasons.

First, the additional expense savings programs, which will offset the current macro headwinds facing Aegon in our key markets. Second, the successful integration of the Cofunds business into our platform in the UK by 2018. And third, the increased capital generation from growth businesses, such as asset management C, Spain. And Portugal. And this lays the foundation for continued strong remittances from our business units and supporting the planned capital return to shareholders.

In addition to continued dividend flows from the US, we expect to receive a dividend over 2016 from a Dutch unit. And we also anticipate a dividend from the UK after the completion of the Part 7 transfers later in 2017.

We are indeed well on track on our commitment to return to EUR2.1 billion to shareholders over the 3-year period 2016-2018. And this year, we have returned EUR950 million through our increasing dividend and by completing the share buyback of EUR400 million. And we aim to further increase dividends going forward in line with expected growth and cash flows.

By 2019, capital generation for the Group is expected to increase further as the full benefit of the expense savings program in the US will be realized, driving the growth of the US capital generation from its current stable position. And Michiel will show you the details for this later in his presentation.

So now let me update you on the progress of our other 2018 financial targets. So as you can see on this slide, we have made significant progress towards achieving our 2018 targets. The strong growth in our sales reflect the successful execution of our strategy, the trust our customers place in us. And particular, the development of our US fee businesses as well as asset management.

And although we have seen some challenging quarters from an earnings perspective, we are fully committed to implement all management actions necessary to enable us to deliver on our ROE target of 10% by the end of 2018.

We are successfully executing on expense reductions plans. And as previously mentioned, we are increasing our 2018 expense reduction target by EUR150 million to total of EUR350 million. These additional expense savings are implemented to offset the effects of lower-than-anticipated interest rates, which as you know impact both reinvestment yields and profitability of sales, as well as regulatory changes. And as mentioned earlier, the biggest part of these expense savings will be achieved here in the US and will be covered in more detail by Mark and Michiel in just a moment.

But I also would like to emphasize here that these expense savings will allow us to self-fund the necessary investments in technology that allows us to execute on our strategy of offering a fully digitized customer journey.

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Furthermore, our excess capital at the holding remains well within our target range. And finally, as I just discussed, we remain well on track to meet our capital return to shareholders target, supported by growing free cash flows and our solid capital position.

All our units are being assessed on the number of metrics that are important to us. We're not just focused on financial metrics. We ask ourselves: Do this business fit with our strategy? What growth prospects do they have? Do they deliver sufficient cash flows and returns now and in the future? In short, the question is: Will they contribute to the successful execution of the Group strategy.

And in our emerging markets, especially Asia, we will support the growth of our businesses. One of the measures we have taken to improve returns in cash flow generation in Asia is that we are exiting nonprofitable affinity businesses and developing, same time, digitally enabled new businesses.

And this is very similar to the actions we are taking here in the US. And if the remainder of our businesses in emerging markets are unable to reach scale, we will explore divestment options.

The markets in Continental Europe are converging more and more as both regulation and customer needs continue to align in our different markets. And this is why we are increasing seeking synergies across our businesses. This includes sharing back-office support, technology development through our digital Center of Excellence. But also product knowledge sharing.

In the UK, our priority is first and foremost executing on the integration of the Cofunds acquisition and realizing the cost benefits. And we expect to begin to see the full benefits of this acquisition to come through by the end of 2018. We will accelerate the growth of asset management business. And as mentioned earlier, this will be accomplished by continuing to grow our third-party business and by expanding into additional markets.

And lastly, our US business, the main topic of today. So before I hand over to Mark, let me briefly tell you why we are so excited to have such a strong franchise here in the US.

The US is and remains the largest financial market in the world and is facing a retirement dilemma, as more than 10,000 Americans retire each and every day. And this provides a great opportunity for Transamerica to help people achieve a lifetime of financial security by offering the products and services they need to make the transition from accumulation to retirement.

And Transamerica, as you will see later, is uniquely positioned to capitalize on these needs with leading protection and wealth businesses in the United States. These businesses are leading the way in terms of executing on the Group strategy of focusing on fee and protection businesses and have returned over $10 billion to the holding in the past six years while maintaining a continued strong capital position. And last. But not least, Transamerica is an iconic and trusted brand, with over 17 million customers that trust us with their financial well-being every day.



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And these are just a few reasons why I am proud of our Transamerica franchise. And I hope through today's presentation and through answering your questions, we can convey why our business here is so well positioned and why we are also very confident of our prospects as we look to the future.

So let me allow you to thank you once again for your interest. And it is now my pleasure to hand it over to Mark Mullin. Thank you.

## Mark Mullin {BIO 16344493 <GO>}

Good morning, everyone. And thank you, Alex. Today, my team and I look forward to sharing the significant progress we are making as we continue to deliver on our targets that we set for you in January.

As you recall, we set ambitious targets at that time covering capital generation, lower expenses, return on capital. And capital management. More recently on the Second Quarter earnings call, we provided additional information as to how we will deliver on these important targets.

And the end of Q3, we informed you that we already achieved $75 million towards our goal of $150 million in run rate savings. Today, we are not only reaffirming these targets. But extending them further.

We are doubling our 2018 expense target to $300 million as a result of robust and rigorous management actions. My team and I are confident that we can achieve these targets, as we are well on track to delivering the $150 million a full year ahead of plan.

To this end, last week we announced that we had taken the necessary steps to reduce another 500 positions and exit 3 locations. These actions represent a further $50 million of run rate savings. So combined with the $75 million already achieved as of Q3, we are already close to delivering the original $150 million target.

We have also made the decision to rundown our existing business in Affinity, DirecTV. And Direct Mail. With respect to exit from these channels, from a top-line perspective, the impact will mainly be seen in travel sales. The underlying earnings impact will be modest and will be more than offset by additional cost savings. In addition, an additional $100 million of capital will be released over the next three years.

Finally, by coming together as One Transamerica, we have identified even more expense savings opportunity through modernization, digitization. And sourcing, which will deliver the additional $150 million of run rate savings by end of 2018.

All that being said, my presentation this morning is not just about expense savings. Through our sessions today, my team and I will outline the key market opportunities where Transamerica is already well positioned for continued growth.

One such area that we will delve in today with you is the worksite. We are investing in innovative and integrated worksite solutions that will harness the latest digital technologies to deliver leading customer experience. We are also selectively investing in the future in proposition, skills. And technology to ensure that we are well positioned to capture future opportunities that we see emerging in the US market.

As you know, the US market remains the largest in the world, with strong prospects driven by growing affluence, saving rates. And a rapidly aging demographic. More than 100 million people save through the worksite. But recent findings from the Transamerica Center for Retirement Studies found that only 15% of workers feel very confident about their prospects to have a safe and secure retirement. And many others plan to work beyond the age of 65.

Technology opens new possibilities for how we can effectively engage with participants, employers. And advisors creating solutions which integrate a range of offerings across wealth, health. And advice. Importantly, as Alex showed, Transamerica already has advanced capabilities and well-established market positions required to succeed.

As you are aware, the US market has been evolving rapidly over the recent years. We have consistently taken action to reduce our exposure to prolonged low rates through hedging and ALM. But also as a result of active product management, especially in life insurance and annuities.

We are well placed to not only comply with the DOL fiduciary rules, which are currently planned to become effective April 2017. But to create new fee-based offerings for advisors and DC plan participants with our managed advice solution.

With our managed advice solution, we will offer plan participants a much fuller, richer, more engaging experience for a fee. Be assured throughout all this change, Transamerica is leveraging both our US experience and capabilities as well as the lessons learned throughout the Aegon Group.

We have talked many times about key global themes and the many changes that are taking place in our market. Our commitment to our strategic objectives, however, remains unchanged. For loyal customers, we are enabling customers of Transamerica to engage with us in new digitally enabled ways and with new and exciting propositions. This will all be supported by continuous investment in digital solutions, which will also drive operational excellence ambitions to significantly reduce complexity and cost.

Over the past five years, we have rigorously managed our portfolio to optimize returns on capital invested. This year, we have focused on product and channel offerings to ensure they deliver a required rate of return for shareholders as well as good value to customers. Finally, we are investing in talent, developing and recruiting people with new skills and capabilities in key areas such as digital technology, advice, digital marketing, as well as ALM hedging.



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We also promised to provide you with further information on our five-part plan delivery. This afternoon, you will have the opportunity to meet with my team and discuss key aspects of the five-point plan. David Hopewell, Chief Product Officer. And David Paulsen, Chief Distribution Officer, will discuss with you the first three parts of the plan, covering in-force management, new business prospects. And portfolio optimization.

This will highlight the steps that we are taking to improve returns on our in-force block. In addition, they will share the way that we are using our One Transamerica structure to improve the consistency of our distribution approach in key markets. And the significant product rationalization that is underway in our product portfolio.

We will then extend what we are doing in key markets with insights from David Macmillan, Chief Marketing Officer. And Gerard Rescigno, Chief Technology Officer, covering how we are moving deeper and driving a deeper understanding from our customers with the creation of innovative digital experiences for participants, employers. And advisors. All of this is powered by our ability to leverage new technologies.

Todd Fuhs, Chief Risk Officer. And Eoin Elliffe, head of ALM Hedging, will provide you with an in-depth view of how we are actively managing our balance sheet and risk positions, particularly for variable annuities to reduce volatility and cost going forward.

Finally, Blake Bostwick, Chief Operations Officer, will outline the work underway on expense savings and future location strategy. This will clearly demonstrate the robust action we have already taken. But also provide further insight for the scope of additional expense savings as we modernize the business.

Let me now give you a quick overview of our five-point plan, designed to accelerate and expand the scope of our delivery against our commitments. Part one revolves around in-force management.

As we have communicated previously, we have a robust program in place to manage our in-force block. We are well underway to increasing monthly deduction rates on certain universal life blocks in accordance with policy terms. And at the same time, we are making good progress with key states to obtain necessary and actuarially justified rate increases on our long-term care business.

Let me now move onto solutions we are delivering to further engage with our customers. As I mentioned, we plan to leverage both Transamerica's strong presence and new technologies to deliver innovative, integrated solutions for employers, participants. And advisers at the worksite. This slide shows the key elements of the offering. And my team will provide you with further information on each section in the breakouts to follow.

Our research shows that two of the top two concerns of workers is that they will outlive their savings or have declining health that will require long-term care. So we are focusing on integrated offerings like combined wealth, health. And advice.

We can and will combine innovative digital user experiences with market-leading products, services. And fund management to provide customers with a richer, more rewarding experience. This will enable us to get closer to customers and understand their needs further, allowing us to expand our relationships and ultimately revenues.

This is where the power of our customer analytics platform, also known as EMAP, comes into its own. It incorporates multiple internal and external sources to provide a single insight into each customer journey at a granular level.

We believe that this integrated offering will allow us to accelerate our success at the worksite, leveraging our existing market-leading positions in both wealth, particularly defined contribution. And health, employee benefit, with our experience in providing advice on IRAs to participants.

As you can see on this slide, since 2011, we have grown at four times as fast as the market in DC assets. And with the recent acquisition of Mercer's DC business, we have expanded our presence into the jumbo and large plan space.

Voluntary benefits: also growing rapidly. And our growth rate has been twice that of the market overall. Strengthening our advice center opens up further possibilities to unlock other assets held by participants outside the plans and products that we currently administer, particularly IRAs and other savings pools.

Let me now just turn to our life business. This slide shows that the market is growing at a fairly slow pace, something you are all familiar with. Having said that, Transamerica's growth has been twice that of the market. We hold top 10 positions in all significant products, including a number two rank in indexed universal life, by far the fastest-growing individual life product.

Our distribution channels are similarly diverse, with a solid position in brokerage enhanced by our worksite business, where we are the fastest-growing company among the top 10. Sales are further propelled by strong increases in recruiting and licensing at WFG, our dominant channel for IUL sales. We expect our individual life sales to continue to outpace the industry, as we remain very well positioned to seize the opportunities provided by life products, especially to the underserved middle market.

Part three is around optimizing the portfolio. The opportunity at the worksite and related opportunity to sell life and health products feature strongly in our growth section of the product portfolio analysis. You will learn more about the specifics in the breakouts, where David Hopewell will take you through the process that we've gone through this past year.

We are also working to simplify and streamline our product offerings, most especially in the life and health business. This will reduce costs further and help ensure that all of our products offer good value to customers and shareholders alike.



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Finally, we have also committed to seek ways to reduce IFRS capital -- Alex touched upon this -- in our runoff business, particularly payout annuities and BOLI / COLI. As Alex touched upon, the increase in interest rates recently in the US improve the prospects for a transaction.

Part four deals with location strategy. It is important that we have the right size footprint for the new digital world. Therefore, last week we announced the first wave of our location strategy, which will see three office closures impacting approximately 500 people.

Where necessary, we are relocating some activities to other key locations. Let me assure you we will continue to seek further opportunities to centralize our activities in a smaller number of locations in order to deliver the expense saves and improve collaboration efforts.

In January, we talked about the One Transamerica initiative, which transformed this business into a single functionally based organization. Our reorganization is already delivering significant benefits as we streamline our organization, simplify our decision-making processes, creating a lighter, faster, more nimble organization. As I discussed earlier, the reorganization has also been crucial in identifying significant further expense savings, which will enable us to double our 2018 target.

At the same time, we have identified key areas which require further investment to support new activities and capabilities, particularly in areas of advice and digital. These investments will occur over the course of the next several years and will not impact planned remittances to the Group.

Let me turn to the targets. As I have demonstrated, we have a strong management action plan underway in each of key areas outlined in our five-point plan. Therefore, I am confident that we will be able to deliver on our financial targets that we set in January and discussed with you in each of the quarters.

We have consistently delivered stable cash flows and project this will continue as we continue our growth in our fee-based businesses. We are doubling our expense savings targets for 2018, given that we are already close to delivering on the original target.

These additional expense savings, together with our ongoing organic growth, will enable us to increase return on capital to at least 9% by the end of 2018. Finally, as I explained, higher long-term rates improve the outlook for the disposition of the businesses currently in runoff.

In closing, I strongly believe we have a comprehensive program to actively drive and deliver on a clear path of strengthening our return on capital. First, we have taken decisive management action and we are accelerating our five-point plan.

Second, we are using deep insights into customers together with the latest technology to deliver a differentiated customer experience. And we will do this without -- in a self-funded way. Finally, we are leveraging our US experience, which is vast, together with lessons learned throughout the Group to deliver and position ourselves for the future.

Thank you for your time this morning. I will now turn it over to Michiel van Katwijk to give you an update on our financial progress and goals. Then the three of us will come back for Q&A at the end of the session.

## Michiel van Katwijk {BIO 1943010 <GO>}

Mark, your Dutch pronunciation of my name is impressive. Good morning, all. During my presentation, I will take you through the financial side of today's story and address the impact of low interest rates and pending regulatory changes. But let me first explain how the strategic actions we are taking enable us to reaffirm our financial targets for the US business.

As Mark has clearly highlighted, we are on track to achieve the targets we set for our US business. We continue to expect stable capital generation of $1 billion annually and to reach our 9% return on capital target by 2018.

This is supported by strong delivery of expense savings. We do not only plan to reach our original target of $150 million one year early. But we will also double our total expense savings target to $300 million to be reached by year-end 2018.

As you know, Transamerica has been the main dividend contributor to the holding company. These dividends are supported by our strong capital position. Let me now turn to the management actions we are executing upon.

In order to further improve the performance of Transamerica and deliver on these objectives, we are implementing our five-part plan. As Mark mentioned, as part of this plan, we have taken many actions already. I will highlight a few of them.

We've been increasing the monthly deduction rates on universal life, making good progress on obtaining approvals for long-term care rate increases. We announced that we will exit the Affinity, Direct Mail. And DirecTV businesses. We are closing 3 locations. And in the process, eliminating 800 positions, leading to a net decrease of the number of employees of around 500. And we are accelerating the expense savings program.

As I indicated earlier, we are on track to reach the financial targets for 2018, supported by the additional management actions we are taking. In addition to accelerating the expense savings program, our action plan includes further reducing the capital intensity of sales by continuing our shift towards more capital-light products, adhering to our strong pricing discipline.

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And I would like to spend a little bit of time here, since generally this is thought of as the emphasizing or withdrawing products which do not meet our hurdle rates. However, it also works the other way around. We have demonstrated that we can be fast repricers of business, allowing us to make the volume margin trade-off very effectively. We have consistently demonstrated this ability in the variable annuity market over the past years.

As a result, we are able to reconfirm our 2018 targets in spite of the headwinds we are facing from low interest rates and increased regulation. With the recent increases in interest rates here in the US, the potential for a divestment of non-core blocks of business has improved. We have nothing specific to report at this point and we will continue to review options that maximize the value for Aegon.

Moving to slide 5. Our healthy capital position is the foundation for our robust capital deployment plan. We have been operating at or above the top end of our target range of 350% to 450% in recent quarters. And we expect our RBC ratio to remain within the target range during our plan period.

This, in combination with our strong risk management, results in strong financial strength ratings for our operating entities from all rating agencies and all with stable outlooks. Todd and Eoin in their breakout will provide you with more details on our ALM and hedging strategies and how those support our financial profile.

I am aware that low interest rates and upcoming regulatory changes affecting capital requirements have had an impact on the perception of our business. On the next couple of slides, I will demonstrate that we do not anticipate a material impact from these two factors on our capital position and financial targets.

Slide six lays out the significant regulatory changes affecting capital requirements which are ahead. Let me take you through them one by one. We welcome the new reserving regulations for variable annuities as we work closely with regulators in shaping these new rules.

The better alignment of valuation of assets and liabilities will significantly reduce hedging volatility. And we expect the impact on our capital position to be nonmaterial. We expect these new rules to become effective in 2018.

We also welcome principle-based reserving, which changes required capital for products with mortality components to more economic and realistic levels. As a result, we believe we will not need to finance redundant reserves going forward.

At the same time, the financing which is currently in place will be grandfathered. We do not expect a material impact on our capital position from this change. And in addition, we believe that we will be able to competitively price while not financing the remaining redundancy under the new rules.

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Lastly, the adjustment to RBC asset charges is expected to lead to a manageable impact on our consolidated RBC ratio of an estimated 20 points to 25 points. All in all, we do not foresee these regulatory changes materially impacting our capital ratios or capital deployment plans.

On slide 7, I would like to address the impact of a lower-for-longer scenario. Even interest rates have risen here recently, we are still just back to where we started the year. And as this slide shows, we are well positioned to manage through a prolonged low interest rate environment.

We stressed our capital position -- capital generation and return on capital for a prolonged low rate environment, where we assume that the 10-year treasury will stay stable at 2% for the coming years. This scenario does not have a significant impact on our capital position, which would remain within the target zone. The average capital generation over the medium term will decline by only about $100 million dollars per year.

So even in this scenario, we are able to execute on our original dividend plan to the holding company. The biggest impact would be on our return on capital, which would be reduced by 50 basis points in 2018 compared to our base plan of increasing returns to more than 9%.

To mitigate the effects of low rates, we continue to implement measures both for new business and in-force business.

And let's not forget, lower for longer is not new to us. It's the reality we have successfully managed through in the past years. To navigate this low interest rate environment and to transform the profile of our business, we have proactively executed clear strategic choices. We've sold run-off and deemphasized a large part of our spread-based businesses. As a result, required capital related to run-off businesses and fixed annuities has already declined by more than 50%. This trend is expected to continue in the coming years, albeit at a slower pace. The quality of our capital generation is increasing as the contribution from our core business increases over time.

Now, let's move from capital generation to dividends. Over the years, Transamerica has been a strong and consistent dividend contributor to the Group driven by both organic capital generation and divestment of non-core businesses, such as Transamerica Reinsurance and our Canadian business. Total dividends to the Group amount to more than $10 billion since 2010.

For 2017 and 2018, we expect stable capital generation of approximately $1 billion. And dividends to the Holding Company of approximately $900 million annually. After 2018, we anticipate capital generation to grow and our dividends to the Holding to increase. By then, we will see the full benefit of our expense savings coming through while our businesses continue to grow organically.

Our dividend plans are supported by strong capital generation. For 2017 and 2018, we expect to generate on average $1.8 billion of capital annually, of which we expect to invest around $800 million in new business in order to assure continued capital generation in the future.

As a result of executing on our strategy to focus more on fee-based businesses, the investment in new business declined by 20% since 2012, as you know. Required surplus related to fee business is generally lower than the required surplus for spread businesses. And although the absolute amount of capital generation has declined, the quality of the capital generation has improved significantly. As a percentage of capital generation, we expect a share of earnings on our in-force business to increase from two-thirds in 2012 to 90% in 2018, continuing the increase of the quality of our capital generation.

Mark told you about the acceleration of our expense savings program, as highlighted here on Slide 11. Let me run you through how this affects our expense base and our returns.

This slide shows the development of our adjusted operating expenses. Let me walk you through it from left to right.

There are three main drivers of the delta in expenses between 2015 and 2016. Our expense base increased due to our investment in digital capabilities and the inclusion of defined contribution business we acquired from Mercer. These were partially offset by realized expense savings. Next year, we will continue to invest in new ways of connecting with our customers while achieving an additional $19 million of run rate savings.

As part of our work to come together as One Transamerica, combined with our digital ambition, we have identified additional events savings as a result of modernization, digitization. And sourcing. The remainder of our expense savings program will be realized in 2018. And will become fully visible in 2019.

The benefits of the expense savings programs, next to organic growth and expected market growth, translate into single-digit annual growth for Transamerica.

Our disciplined approach to capital allocation is also driving earnings growth in the various lines of business. So let's have a closer look at these lines of business.

The main drivers for earnings growth will be retirement plans as well as life and health. The latter is mainly driven by expense savings and continued growth in our IUL product line. We also expect our smaller businesses, mutual funds and our Latin America operations, to post strong earnings growth in the coming years. Earnings from variable annuities in the past period have been impacted by successful reduction of our closed block of variable annuity business, as well as lower margins on new business in recent quarters.

We expect variable annuity earnings to equally benefit from expense savings and expect increased sales volumes post the introduction of the DOL for this year rule. Higher interest rates obviously are beneficial for new business margins.



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In line with our strategic decision to deemphasize the fixed annuity business, we expect the contribution from fixed annuities to continue to shrink. On balance, these actions are expected to lead to attractive earnings growth for our US businesses.

Next to organic growth, as highlighted on the previous slide, our expense savings program will drive higher returns going forward. Management actions growth of the business and financial market returns will push the return on capital to above our targeted 9% by the end of 2018. The return on capital of 9% clearly supports the Group target of a 10% return on equity.

So concluding, Transamerica has a solid capital position and can successfully manage through a prolonged low interest rate environment. Dividends to the Holding Company are underpinned by solid capital generation of which the quality continues to improve. And we doubled our expense savings target to $300 million and we are on track to deliver.

Thank you for your continued interest in Aegon and I would like to open it up to questions now.

### Willem van den Berg {BIO 15203834 <GO>}

Just one thing before we go to questions. I would like to take this opportunity to welcome Matt Rider. Matt, could you stand up please? Matt will join us as of December 1 -- January 1, excuse me, as the CFO. Obviously, we will have to obtain approvals from the shareholders, AGM and final regulatory confirmation from the DNB. But Matt is here today with us. He will be circulating around within the breakouts and I welcome you to get to know Matt. And I know some of you actually know Matt from his previous life. So Matt, welcome. And I hope you have a chance to speak to him. So let me now open to the questions.

## Questions And Answers

### Q - Benoit Petrarque {BIO 15997668 <GO>}

Good morning. Benoit Petrarque from Kepler Chevreux. The first question will be on the US capital generation. So it will be flat until 2018. What about post 2018? We have to work on 2019 models. And what type of growth are you aiming for there? That will be the first question.

The second question, Michiel, on Slide seven your capital generation drag of EUR100 million at 2% -- in the US was raised at 2%, I guess it's eroding, which is probably the real figure is a bit billow that below that, just to confirm. At which level of rates are you neutral, just to clarify that? I think you have no drag on IFRS earnings when the U.S. Treasury is close to 3%. So can we assume that, around 3%, you will have no drag on capital?

Then the last question maybe, Alex, on the asset management business. You want grow on third-party also in new markets. What kind of initiatives are you taking there to improve the distribution, because I think that will be key for 2018? Thanks.



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## A - Michiel van Katwijk {BIO 1943010 <GO>}

I'll take the first two questions. First question on growth, after 2018, capital generation -- in 2019, the expense savings will start to come through capital generation as well. So you could expect an increase of at least EUR100 million in 2019 compared to 2018. On the lower for longer that we run -- that we ran, in fact, in our base area where we increased to 425 [ph] over a ten-year period, the effect of EUR100 million is relative to that increasing scenario. So if we keep it flat, there's EUR100 million that comes off. So it's not really related to an absolute level. But the increase in our base plan that is creating the EUR100 million difference. And just to be clear, it is slightly lower than EUR100 million. But EUR100 million is a nice round number.

## A - Alex Wynaendts {BIO 1821092 <GO>}

So on asset management, the whole idea here is we try to leverage the skills we have in specific areas. So it's about fixed income, high-yield in particular, which is a well-recognized scale, real estate. And also our mortgage funds that we originate in the Netherlands. As you know, a lot of the mortgages we originate effectively are sold through third parties. So what we would like to do is expand our asset management not so much in terms of product capability. But more in terms of distribution. And that's what we are focusing on. Our joint venture with La Banque Postale is a good example. Not only do we have a share in the asset management company. But we have access to 11,000 retail outlets that people in France can save, as you know. And try looking at better alternatives for what they currently have in deposits. And where we are trying to expand our distribution footprint is, for example, in Scandinavia, it's in Asia and Japan. And it's really about having these solution capabilities to sell the products that we already successfully sell in other parts of the world. That is the main driver behind the third party asset management development. Thank you.

## Q - Heather Takahashi {BIO 17304791 <GO>}

Heather Takahashi from Lord Abbett. So my question was on Slide 12 on the expense savings. So it looks like there's only EUR20 [ph] million net over two years in expense savings. So is that correct? Then you also haven't given a 2018 absolute expense base. So do you also have a target for that year?

## A - Alex Wynaendts {BIO 1821092 <GO>}

Can we get Slide 12 on the screen so everybody can follow this question?

## A - Michiel van Katwijk {BIO 1943010 <GO>}

So one of the drivers of higher expenses is the addition of the Mercer business. So really here there is EUR100 million of investments, including the Mercer business, that is coming in. So that is the main driver of the lower decrease of the total expense base. I expect the EUR150 million that comes after the end of 2017, the largest portion of that will actually contribute to earnings. I expect at least EUR100 million of that to contribute to earnings growth.

## Q - Joel Gross {BIO 1501254 <GO>}

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Good morning. Joel Gross from ICMA Retirement Corporation. In regards to Aegon's strategy in the EU and Asia, do you see any headwinds coming from the Brexit vote this past summer, the no-vote in Italy. And any other concerns about volatility in the EU market, as well as in Asia from slowdown in the growth of the Chinese economy?

## A - Alex Wynaendts {BIO 1821092 <GO>}

So in terms of UK and the impact of Brexit, our business in the UK is a business where we have both the liabilities and our assets in the same currency in the same country. So in itself, this will not create a specific impact on our business. The fact that we've seen lower interest rates has had an impact. They have a new case in what we covered.

I think, in general, it is fair to say that we see more uncertainty in Europe about the future. The Brexit is of course a first step in not building towards an integrated Europe. It's the first step in undoing it. The elections in Italy were seen also as a big event and I think it turned out to be less of a big event.

And the reality for our business is that our customers are those people that are looking for financial protection. They need to be protected against all the things that can happen. They need to build up also their savings for future retirement. So that is not going to change. On the contrary, I would say that people more and more realize that there is a shift now from the government or from EU to the individual. And the shift to the individual means more of the responsibility to be taken by individuals themselves. And that's exactly at the heart of our strategy where we try to help our customers, or prospective customers, to take the right decisions going forward.

And as you know, we had a lot of deregulation taking place in Europe. Effectively, those customers that can afford to have financial advisors become more and more limited because the assets you have to justify to have a personal financial advisor is going up because of the cost of regulation increasing. And this is the space we want to fill is to be close to our customers. And Mark touched upon it in the US. But our strategy is identical in Europe, identical in the UK, try to get close to our customers to help them to find solutions and help them address what their needs are going forward, taking into account that they will have more and more as they take responsibility themselves.

And the same I would say applies to China, to Asia. Certainly the growth of China is an issue. But in any case, what we see is that these populations also become more wealthy. They also need to protect themselves for the future wherever it is, regardless of the growth. And that is exactly the space we want to be in.

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## Q - Unidentified Participant

Good morning, (inaudible) from Morgan Stanley. I've got a question for Alex. You mentioned that you aim to achieve scale in emerging markets. Can you talk a bit more about that on how you will achieve that? Do you plan to do acquisitions in terms of investments? And in that context, perhaps also discuss the leverage existing because I think, with the recently announced debt issuance, your leverage is above your target range. So do you prioritize reducing your leverage? How do you see that?

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And lastly, you show continued growth in fee-based businesses. And consequent capital release on the back of that, etc. Can you comment on the margin impact of continued growth to fee-based businesses? Thank you.

## A - Alex Wynaendts {BIO 1821092 <GO>}

Three questions. Let me start on the first one. I've been very clear is we have a number of presences in emerging markets, in some case large markets and some case small markets. In Central and Eastern Europe, you know we have positions in quite a number of markets, leading positions in Hungary in particular, Turkey also. And good positions in small markets like the Czech Republic, Slovakia and Romania.

I would say that Czech Republic, Slovakia, Romania and Hungary all meet our return requirements, returns well in excess of 10%. Turkey, it's a bit early. And we are growing our business -- and despite all the events that have taken place in Turkey, actually our business continues to grow very well, even in the month of the coup attempt. So in these markets, we are looking at what extent we can achieve scale and also what extent we can have a business that is adding something substantial to our group. So Poland is a market, for example, where we do not have scale and we will have to take decisions going forward as to what is the best way forward.

In Asia, it is a little bit different in the sense that we have presence in a number of very large markets, for example Japan, China and India, very large markets. Growing markets, even in Japan, which is not seen as a growing market, the part of the business in which we are in, which is retirement solutions, is growing and a fast-growing part of the market. And in these markets, we are looking at all options we have to achieve scale. And in these markets, we have to achieve more scale than we have right now. What I said is if we see that we are not able to achieve scale, we will have to look at alternative options.

Your second question was on leverage. So on leverage, I would say that we have a temporary increase of leverage because we refinanced a bond that is going to mature in July 2017. We refinanced it earlier last week. And I'm glad we did so because we wanted to take advantage of very low interest rates where we, today, we would have had to pay a significant or at least quite higher coupon. So we've taken advantage of the market conditions to be prepared and to have there for the financing in place. This is something which we discussed our rating agencies. And once the double leverage effect of the two bonds will disappear in July, that should reduce leverage by around 150 basis points, bringing us back well within our range that we actually are looking for. So I don't see that as an issue that requires additional measures. It will resolve itself in July when we redeem the EUR5 million bonds that's due.

So we will be then -- pro forma would be a 30.8% minus 150 basis points, that brings us well below the 30%. And we are comfortable at that range of leverage, particularly because our interest rate coverage ratio is actually very strong.

And the third question --

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## Q - Unidentified Participant

(inaudible)

## A - Alex Wynaendts {BIO 1821092 <GO>}

So let me finish your third question before I come to you. The third question is you're absolutely right that, in these businesses, or fee business, that we do see margin compression. And in particular, we see that in the part that is record-keeping. You will be able to get a chance here in the US to see that. Actually, the US organization has been able to maintain quite a stable margin in their record-keeping business because they were taking actions not only increasing scale, amongst others, with the Mercer transaction. But also taking a lot of actions of bringing systems together, platforms together. And taking cost out.

So we are well aware of the fact that the record-keeping part of the business will see continued margin compression. And that's exactly why we try to do -- and what we're trying to do is to try to get close to our customers and to be able to add additional services. And what we want to do is to be providing investment services, solutions, guidance, all in line with what I was just alluding to before, that there is a need for many customers to get some serious guidance. As you know, if you have to pay let's say EUR5.00 a month on your current account, that annoys you. But if you get good advice and guidance that you need and you pay a fee for that, that's much easier to get the fee. So that is the area where we try to offset the pressure on margins, by providing additional services. And that is what requires the investments in technology we are making, not only investments in technology but also investments we are making in companies, fin-tech companies. NextCapital is one of them. You will hear more about that here in the US. That is providing global advisory service to the 401 k [ph] customers, all in line with trying to provide additional services that customers pay for.

Sorry, Nick raised his hand many times.

## Q - Nick Holmes {BIO 3387435 <GO>}

Thank you very much. Nick Holmes at Soc Gen. Two questions. The first, Alex, I wanted to thank you for introducing your new CFO. I wondered. Should we be concerned that there could be some changes in reserving accounting going forward? Might there be some reserve reviews, some accounting reviews. And I guess I'm worried about any possible unexpected surprises in terms of earnings hits and stuff like that.

Then, secondly, with the 10% ROE target, is any of that dependent on your making these disposals? You've emphasize disposals. And I guess my question is are these a need to have, to make your 10% ROE target, or a nice to have, which could actually exceed 10%?

## A - Alex Wynaendts {BIO 1821092 <GO>}

Well let me answer the first question first. When we look at our assumptions and reserves. And I said this earlier, we go through a very thorough process of governance. For example, here in the US. And (inaudible) market talk more about it, there is a whole process where we have appointed actuaries where we have our external auditors. So

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that's a process that is going through a formal governance process. And as such, we had given you, in the Third Quarter, an overview of the assumption changes that we had to make. And we've made at that point in time. So there's no reason to believe that somebody else coming in as CFO right now would have a different judgment compared to what was done in Q3.

Certainly, we would expect Matt to be looking with a fresh pair of eyes at the way we are running our business. And he will certainly also have his view on certain things. But I can assure you that, when you have a good governance process in place, it's very unlikely for you to expect any changes compared with what we have right now.

The second question you raised is our 10% target requiring us to execute on the BOLI/COLI and structured settlement transactions. The answer to it is it's nice to have. And obviously we would like to address it because this has been part of one of our strategic objectives is to effectively accelerate I would say the final run-off of the business. So it's nice to have in addition to where we sit. Thank you.

## Q - Farquhar Murray {BIO 15345435 <GO>}

Farquhar Murray, Autonomous Research. Just two questions if I may. You've reaffirmed the 10% return on capital equity target, having earned it in about EUR150 million of cost savings. Presumably, we are therefore looking at EUR150 million of headwinds that was incremental when you originally gave the plan. Can you just decompose that headwind in terms of low rates, kind of margin pressures. And the regulatory aspects of it too?

Then, secondly, you have reiterated the kind of comments you made about the variable annuity reforms and the principle-based reserving in terms of no material impact on capital and deployment. Can you just give us some extra color on why you feel so confident about that, bearing in my that most everything is settled there? And in particular, on the variable annuity book, could you give us a sense of where the CET1 reserving position is on that book? Thanks.

## A - Alex Wynaendts {BIO 1821092 <GO>}

Let me take the first part. So as we said, we have been facing a number of headwinds, lower interest rates in the US, we are back right now more or less where we were at the beginning of the year. I'd like to remind you that, in Europe, we are far from being back where we were in the beginning of the year. So we have additional headwinds that we are seeing in terms of interest rates.

Effective interest rates are lower also means that profitability of our sales has been lower. That has been very visible in, for example, our variable annuity business in the UK -- in the US. And we also see that in the Netherlands. Because of lower interest rates, we see very limited activity, for example, in the pension area, because most customers are waiting for higher interest rates before they start executing.

So there's a combination of a number of elements. And on top of that, what we are also seeing is regulatory pressure. And in particular we see that here in the US in the

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Department of Labor, which has had a negative impact -- a negative impact in terms of sales.

So it's very hard to exactly quantify what part is what. But it's clear that there is a whole suite of elements, interest rates, lower profitability sales. And regulatory pressure, that we are now offsetting by measures we as management are taking in order to make sure that we do achieve the target of 10%, which we have set out to achieve.

## A - Michiel van Katwijk {BIO 1943010 <GO>}

I can answer on the first question. In fact, if interest rates stay level or go down, the earnings drag every year is around EUR10 million a quarter. So if interest rates stay at a low level or continue to go down after two years, you are looking at close to EUR80 million, EUR90 million, EUR100 million. So interest rates have a lot to do with it in addition to regulatory changes.

Your second question was about fee (inaudible). We are well aware that we are not fully done yet. But the way -- the direction that we have been taking we believe is a very positive one. We do not expect a material impact because we never set up our VA captive in the first place to achieve lower capital requirement. We set up our VA captive in order to be able to manage risks well. We are carrying our VA -- we are accounting in our VA captive on a GAAP basis, which allows us to have a much better match between movements of assets and liabilities, particularly on interest rate hedging, because we have an interest rate hedges for a long time and, on a US step basis, interest rate hedges create a lot of volatility. While that goes away, we support that, that is all positive. And the way we are carrying our business in our captive, since we didn't put it there to get lower capital requirements, we feel very confident that it will not have a meaningful impact when we might be bringing it back onto the (inaudible) company.

## A - Alex Wynaendts {BIO 1821092 <GO>}

Not intentional.

## Q - Unidentified Participant

(multiple speakers) UBS. I just have one question on the capital generation. So the EUR1.8 billion where you reinvest EUR800 million. And you mentioned during the VA part that you expect volumes of VA to come back up as opposed to IUL. So I was just curious, a little bit more color around that EUR800 million, what you're kind of assuming in terms of volumes, whether you expect a bit of a pick up on that.

And the second part of that, if the environment improves, obviously you're running VA growing the larger margin -- lower capital-intensive businesses more aggressively. But it is in a scenario where VA sales are picking up or classified as more capital-intensive. Is there some delta around that EUR800 million that increases quite a bit? And would you do that as well? Would you do that if the margins are good?

## A - Michiel van Katwijk {BIO 1943010 <GO>}

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Sure. The largest piece of that EUR800 million of investment in new business is actually going to the life business. It's the most capital-intensive business. So the volume. So the EUR800 million, is really driven by the volume of life business we write. Variable annuities is not a terribly capital intensive business, actually has relatively low investment need.

And we will write more business when margins are higher. That's what we've demonstrated over the past year. So when margins were high, we wrote more business. And when margins are lower, we will pull back and we will continue on that strategy. And so the EUR800 million a year will be mainly driven by our success on the life side in writing new business rather than in other lines of business.

## Q - Unidentified Participant

(inaudible)

## A - Michiel van Katwijk {BIO 1943010 <GO>}

We continue to see the shift to fee-based business. So, on average, I think the EUR800 million is a pretty good number. I don't think it will -- we've seen it come down over the last couple of years. And I would think that, with the continued shift to more fee-based business, it would stay around these levels even with some growth in some of these areas.

## Q - Mark Cohen {BIO 17491588 <GO>}

Mark Cohen [ph], Guggenheim Partners. I just want to maybe expand on one of the questions that was asked before. You've highlighted a target RBC ratio for your US operations. I was wondering if you could provide us a target based on the Oliver Wyman conditional tail expectations on your variable annuity book, if that's possible, given that it's coming up soon.

And the second question I have is more on strategy. I think one of the slides highlighted that you plan on growing long-term care. Recently, we've seen a couple of major players basically exiting the business despite state regulators providing rate increases and even the rate increases not being enough to cover both the in-force and the new business. What are you seeing that your peers are not seeing? And maybe you could expand on that; that would be very beneficial.

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## A - Mark Mullin {BIO 16344493 <GO>}

You do the first, I'll do the second?

## A - Michiel van Katwijk {BIO 1943010 <GO>}

That's fine. Let me follow-up with you separately on the CT levels on the variable annuity business.

## A - Mark Mullin {BIO 16344493 <GO>}

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On long-term care, first of all, we have been in the business for many, many years. So we've got a wealthy experience and knowledge to build from and grow from. Products have evolved through the years. Products that we sell today are vastly different than those very rich products that were sold a couple of decades ago. There's a real need in the marketplace. And we like markets that are a bit disrupted. And the long-term care market is going through a period of disruption. Why? Because there's a demand-supply imbalance precisely because of what you're pointing to. That is to say certain companies are pulling out.

So we see two areas of value, one in long-term care sales and sales, where we can continue to expand margin, very good returns, limited risk within the product, it's a limited indemnity product. And secondly on risk riders. So another profit pool on some of our insurance products that we can get another profit pool there.

So the fact that -- I would also point to the fact, one final point, I would also point to the fact that regulators are in fact recognizing the need for this product. Their consumers, constituents of their states need it. We've got an aging demographic. They see it as a critical component to ensure their citizenry have some protection. And so that market, in terms of the ability and willingness of regulators to look at rate increases with respect to back books, has improved significantly. And part of that is related to insolvency, what's going on that is specifically related to long-term care that you might be familiar with.

So we think the environment, we think the demand-supply imbalance is there, it's real, have good margin. And the regulatory environment is improving. And the regulators I think would echo that comment, state regulators.

## Q - William Hawkins {BIO 1822411 <GO>}

William Hawkins from KBW. Alex, at the January investor day when you guys were talking about your group capital generation, there was a EUR600 million figure that was effectively called flexibility. And at that point, you were indicating -- you were very happy with all of your expected meeting your other financial targets. So my impression was to be genuinely surplus to requirements. You've talked reassuringly about where you are with regards to leverage, with regards to solvency, American capital generation. I know there are still some issues in the Netherlands. Is that EUR600 million still a figure that exists in your Group roll-forward? And to the extent that it's flexibility, what is your ambition for what you're going to be doing with that over the next couple of years?

## A - Alex Wynaendts {BIO 1821092 <GO>}

We did mention that flexibility, as you can see, it's always good to have some of the flexibility in your plan because we are also expecting interest rates at quite a different level, particular also in the Netherlands. So we've been looking at ways of ensuring that we continue to be able to support THE dividend payment. We also showed you in January at that point in time that there was an amount of capital that would be made available to our business in Asia to grow. That has been adjusted downwards. So we're trying to move the different parts in order to maintain flexibility around the total number while ensuring that we are able to pay the dividends and the total return to shareholders of EUR2.1 million. So I'm not going to go now at this point in time and provide you an adjusted new

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number around flexibility. But that flexibility allows us to see differences between the moving parts, all with the objective of being able to secure our commitment on return to shareholders.

## Q - Unidentified Participant

Good morning. Kempen & Co. A follow-up question on the capital generation. Could you give us a breakdown of the EUR1 billion capital generation on an annual basis? Which are the sources in terms of product lines maybe or in terms of excess return versus fee income for instance as a source of capital generation?

And the second question relates to the restructuring in the US. To what extent is this a complex restructuring in terms of size to what's your current size? And do you see other opportunities when you look forward beyond this stage? Thank you.

## A - Mark Mullin {BIO 16344493 <GO>}

I'll take the second one first and let Michiel work through the first one.

Size, it's an important restructuring for us. But candidly, if you think back about our journey, we've been on this journey for 10 years, going from a federated multidivisional structure down to where we landed in March, which was one functionally-based organization. So it's a continuation of a trend you've seen from us. That's also true, as you saw in the slides, in terms of the mix in composition of the business.

I think what's different today than it was let's say five or six years ago is the way we can reduce costs through deployment of technology. One thing that's not in our control but we certainly benefit from is the advancements in technology and changes. In the old days, you would think about these kinds of restructurings as merging big platforms, which would have a lot of expense, a lot of operational risk. And at least, in my experience, tend not to come in on time or on budget. In today's world, working in an agile way, there's many different ways to get to the same result at a much lower cost with reduced operational risk. So we're going to go through it in a very methodical way. You're going to hear a lot more of it in the breakouts. Blake Bostwick will talk about it at some length with you. But we believe this is the way forward, because customers need to have one experience with a company; that's important. And we think we've got opportunity, again, because of where we are starting, where we started from. So pulling that together now is the next leg of what we've been working on. So it's significant. But it's an area of focus and attention for my management team, all in the back, everybody is aligned. And I think we've got a track record of execution. So we're going to get it done.

## A - Michiel van Katwijk {BIO 1943010 <GO>}

On capital generation, we don't really provide a whole lot of detail around the various product lines. But you can -- as sort of a guiding principle, you can use where we are investing our capital in those businesses that also is driving capital generation. You should keep in mind there that, for the life business, reserve requirements will make that you have to put up more reserves as businesses on your books. And so capital generation in

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the early years in the life business is relatively lower. And it starts to grow over time. But generally consistent with returns that we are making where we have invested the capital.

## Q - Unidentified Participant

(inaudible)

## A - Michiel van Katwijk {BIO 1943010 <GO>}

From the UK and the Netherlands, also related to the previous question. Could you remind us of your targets there and is something changing for the next two years in your assumptions over there?

## A - Alex Wynaendts {BIO 1821092 <GO>}

In terms of the Q3 numbers, we reminded you of the capital generation of the Netherlands. And we guided towards EUR225 million taking into account the lower interest rates. So obviously, that is going to be a factor going forward.

For the UK, we also said that, after the integration of Cofunds, in other words when the costs have been taken out and we will see the full benefit in -- starting at the end of 2018, we will then have a capital generation of between GBP100 million and GBP150 million. And we showed also the breakout for the smaller markets, which are Central and Eastern Europe, Spain, Portugal. And asset management. So these numbers effectively are unchanged and will grow slowly with the growth of the business.

But the big change is indeed the fact that we are now divested of our annuity book in the UK, which was around GBP70 million to GBP80 million. And that will be replaced by at least the same amount if not more from Cofunds after we have taken our expenses out. And that's the integration phase.

## Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Steven Haywood, HSBC. With interest rates at the current levels and if they continue at these levels for the foreseeable future or go lower, do you expect the US business to be able to get more cost savings out? Is that possible going forwards? Or is there a limit to sort of the cost savings that can be achieved? Then secondly, you showed EUR650 billion assets under management. 45% of that is fee-based. But could you tell us, of your yearly earnings, what percentage is fee-based? Thank you.

## A - Mark Mullin {BIO 16344493 <GO>}

I'll take the first one. We think we've got an aggressive and robust plan in place for the foreseeable future; that is through 2018. Having said that, having said that, our philosophy has been the same. Every year, you have to be more efficient than the prior year.

There was a question about margin compression in spread, or excuse me, in fee-based businesses and record-keeping. That's been the case for 20 years. We've dealt with it. It's driving scale. It's driving economies of scale. It's finding new ways to do business, doing more with less, deploying technology in smart ways. We talked a lot about digital enablement today straight through processing.

There are things that are available today in the marketplace as a result of changes in technology, which is moving a lot faster than our sector, typically speaking, that will allow us to keep moving. So I'm not going to put any further targets out there or refine the EUR300 million by 2018. But I will tell you that's our operating philosophy. So we don't say, well, we are done. There is no done. There is no there or there. you have to keep pushing.



## A - Alex Wynaendts {BIO 1821092 <GO>}

But I hope you will agree, this is already an enormous task to get to this level. And let's get this well executed before we take it further.

Your second question, there was a slide in my presentation that I think shows it well. We were here at around 14%, 15%. So we nearly tripled to 45%. 45% of our earnings are coming from fee businesses. That was your question?

## Q - Steven Haywood {BIO 15743259 <GO>}

(inaudible)

## A - Alex Wynaendts {BIO 1821092 <GO>}

45% -- 44% of our earnings are coming from fee businesses. And that is what we showed here, started at 15%.

One final question. Any final question?

## A - Michiel van Katwijk {BIO 1943010 <GO>}

There never seems to be.

## A - Alex Wynaendts {BIO 1821092 <GO>}

Thank you very much. Willem, do want to say something more about the breakouts? Anyway, we will see you later in the breakouts. Look forward to it. Thank you.

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