Q2 2016 Earnings Call

Company Participants

- Alexander Rijn Wynaendts, CEO, Chairman-Executive & Management Board
- Darryl D. Button, Chief Financial Officer
- Willem van den Berg, Head-Investor Relations

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Mark David Cathcart, Analyst
- Nadine van der Meulen, Analyst
- Nick Holmes, Analyst
- Steven A. Haywood, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Aegon Second Quarter Results 2016 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Willem van den Berg, Head of Investor Relations at Aegon. Please go ahead, sir.

Willem van den Berg {BIO 15203834 <GO>}

Thank you. Good morning, everyone, and thank you for joining this conference call. We will start today's call with a summary of our second quarter 2016 results, followed by a brief overview of the strategic and financial rationale behind the Cofunds acquisition.

Please also review our disclaimer on forward-looking statements, which is at the back of our presentation. After the prepared remarks, CEO, Alex Wynaendts will be joined by our Chief Financial Officer, Darryl Button, to answer your questions.

Alex, go ahead.

Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Thank you, Willem, and good morning to everyone. Thank you for joining us for second quarter 2016 earnings call. This was clearly not a satisfactory quarter from an earnings perspective, as earnings were affected by lower interest rates and adverse claims experience in U.S., and by the book loss from the divestment of our annuity portfolio in the UK. Later in my presentation, I'll outline the five part plan that is being implemented in our U.S. business to improve our results.

I'm pleased with our sales, and in particular our deposits remained very solid. This is a clear indication that we are successfully repositioning our business by providing attractive solutions to an expanding customer base. The acquisition of Cofunds, which we announced today, together with the earlier announced acquisition of BlackRock's DC business, firmly positions our UK business as the leader in the fast-growing digital platform market.

Our capital position increased an estimated 158% during the quarter, despite adverse market impacts, as a result of the management actions we've taken. Based on our solid capital position, and year-to-date capital generation, we're announcing an interim dividend of €0.13 per share. This dividend will bring the total capital return to shareholders this year to an expected €950 million.

Here, slide three shows the development of our Solvency II ratio during the second quarter. As you can see, the Solvency II ratio increased, as the negative impact of lower interest rate was more than offset by management actions in both the Netherlands and the UK, including the divestment of the UK annuity portfolio. In the Netherlands, our Solvency II ratio increased significantly from around 135% last quarter to 154% this quarter, and I will discuss the actions we have taken to achieve this on the next slide.

In the UK, market movements had a negative impact on the capital ratio, as interest rates dropped to an all-time low, following the Brexit vote. Additional interest rate hedges that we put in place before the vote together with a capital release from the second reinsurance deal related to our annuity portfolio did however more than offset the extreme movement in interest rates. And I would like to remind you that the 145% Solvency ratio in the UK does not include the benefit of the Part VII transfers in our annuity book. These transfers are expected to add another 15 percentage points to the ratio next year, after completion of the transfers.

As to the U.S., our RBC ratio remains solid, and is at the high-end of our target range. The decline compared with the previous quarter was mainly driven by the payment of the dividend to the group in addition to the impact of low interest rates.

Let me now discuss the actions we have taken in Netherlands in more detail. Following the first quarter movements in our Dutch Solvency II ratio, we conducted a thorough review of the methodology and the outcomes and identified four key areas of improvement. The first was implementing additional hedges pre-Brexit to reduce a sensitivity to market movements, in particular to declining interest rates. The second was a more thorough application of the volatility adjusted mechanism in the Netherlands. The third was changing our expense assumption in stress conditions. We have a strong track record of managing expenses and we felt that previous approach did not properly captured the actions we would take to bring down cost in the longer run. And the four, our other model and data refinements.

In addition, we've made several refinements by using more granular data in our models. The main impacts of these refinements and the other management actions is a reduction in SCR, resulting in an increase of the Solvency II ratio.

Slide five provides a summary of our latest Solvency II sensitivities for the group and for our main units. These updated sensitivities reflect both the management actions we've taken and the year-to-year – year-to-date market movements. Although sensitivities have increased to a certain degree, they remain low. Today, I would like to focus on three of these key sensitivities: our sensitivities to interest rates; to the ultimate forward rate, UFR; and to credit spreads.

So firstly, our sensitivity to interest rates. Changes in the sensitivity reflect the UK annuity portfolio divestment, adjustments made to hedges in Netherlands, and the lower level of rates in the U.S. In the extreme scenario of interest rates dropping another 100 basis points from current levels, the Solvency II ratio of the group and our main units would remain within that target range.

Secondly, our sensitivity to a lowering of the UFR by 50 basis points. This would reduce our group Solvency II ratio by 7%. The impact on the Dutch Solvency ratio is obviously larger at 19%, but would still be manageable. And thirdly, our sensitivity to credit spreads. The sensitivity increased in the first half of the year partly as a result of the extreme market movements.

As you can see on slide six, our holding excess capital position increased to €1.1 billion during the quarter. The Holding received €600 million in dividends, as various (06:38) units upstream capital. Three-quarter of this was from our largest unit, the U.S. Other significant contributors were Asset Management, and our business in Spain, and Central and Eastern Europe. Together, these units upstreamed a total of €140 million, underlying the importance of these business units and increasing diverse nature of our business. This quarter, we spent around €200 million on the second tranche of our share buyback program and €150 million on paying the cash part of the final 2015 dividend.

And in the third quarter, we'll pay an interim dividend of €0.13 per share, an increase of 8% compared with the last year. This will bring our total capital return to shareholders this year to an expected €950 million, meaning that we are on track to deliver on the capital return plans, which we announced in January at our Investor Day in London.

As I shared with you earlier, our underlying earnings of €435 million did not meet our expectations. Let me now run you through the main moving parts on slide seven. In the Americas, earnings decreased to €270 million as a result of lower earnings from life, accident and health, and variable annuities, while other businesses performed in line with expectations. The principal drivers behind this decrease were declining reinvestment rates, adverse claims experience in both life and health businesses and lower variable annuity earnings.

In Europe, earnings increased by 15% to €160 million. The Netherlands delivered yet another quarter of solid results as earnings increased to €138 million. In the UK, the positive impact of the accounting change relating to upgrading of customers to our platform was partly offset by lower UK life earnings, following the disposal of the annuity portfolio.

Asset Management earnings remained solid at €37 million, although they decreased as a result of the normalization of performance fees. Holding expenses declined to €33 million due to lower funding costs following the redemption of senior debt at the end of last year.

Let me now explain in great detail in slide eight what measures we are taking to address the shortfall in our earnings in the Americas. As you are well aware, low interest rates in U.S. are not only leading to declining reinvestment deals, but also to changes in customer behavior and lower margins on new business. These developments all have an impact on our earnings and, at the same time, we have to deal with significant revenue changes and adverse claims experience. We are however determined to take all necessary actions to offset these adverse impacts and improve our profitability.

Let me provide you with an overview of our five part plan, which is being implemented across our business in the U.S. So, first, we are increasing the monthly deduction rates on certain blocks of our universal life products based on expectation as to what the future cost will be to provide this coverage, both in line with policy guarantees as to maximum rates to be charged. At the end of 2016, we expect to have implemented 75% of these increases and we will start seeing the full impact of these increases from our earnings by the middle of next year.

As you are aware, we're also actively pursuing for rate increases on long-term care policies to compensate for the continued increase in claims. We have filed request in 20 states and are seeing better progress now than a few month ago.

Second, we continue to launch new products and redesign exciting products to secure profitable future growth. Furthermore, you will see exiting products that no longer meet our objectives, which would lead to cost savings in the medium-term. And third, we will continue to explore all options to dispose of non-core and lower return businesses. Selling part of our run-off business in such a low rate environment is, however, proving to be a challenge. But the scope of the current assessment is now broader than just the run-off businesses.

And fourth, we are today announcing that we're in the process of rationalizing our location strategy in the U.S., which will lead to a reduction in a geographic footprint. Fifth, we will accelerate the pace of our expense savings program in U.S., as you can see on the following slide.

So, I'm pleased that we have made strong progress towards reducing our expenses in the first half of 2016, and we are ahead of schedule in realizing this year's expense saving target. In the U.S., we made very strong progress as the completion of our voluntary separation incentive plan led to head count reduction of approximately 600 people and yielded significant savings. As a result, this quarter, we have already achieved our expense savings target for the full year with $60 million of savings instead of the original target of $40 million. And going forward, we'll continue to accelerate the pace of our expense savings.

The Netherlands and at the Holding, we're also on track for 2016 expense savings and making good progress towards our 2018 target, but here I would like to underline, as I've done before, that expense savings program is being executed in such a way so as to ensure that the high customer service levels are maintained. It goes hand-in-hand with continued investments in the business. We are, for instance, continuing to invest in digital capabilities, utilizing the very latest technology that both supports customer experience and simplifies our business at the same time.

I would like to now turn to slide 10, which illustrates how the exceptional items impacted on net results this quarter. As you can see, the main driver behind a net loss of €385 million is a book loss on the divestments of our own annuity portfolio in the UK. This divestment was a key step in executing on our strategy to optimize the portfolio, and it reduces exposure to both financial market and longevity risk going forward.

Through these transactions, we have significantly lowered both our credit spread and interest rate exposure, and successfully freed up £0.5 billion of capital. The financial turmoil and uncertainty following the Brexit vote underscore why the decision to sell our UK annuity book was in the best strategic and financial interest of our company.

Fair value items were another sizable factor this quarter and the loss is amounted to €378 million. The majority of these items were caused by the impact of decreasing interest rates on our hedging programs, and this was mainly related to the accounting mismatch between assets and liabilities on an IFRS basis in the Netherlands. These hedging programs are in place to protect our capital position and are proved to be very active.

Let me now turn to our strong deposits on slide 11. We are pleased with our strong deposits in retirement plan and Asset Management, which have been supported by increased distribution strength following last year's acquisition of Mercer's DC business and the stake in La Banque Postale Asset Management. This quarter, the number of pension participants in U.S. and the UK and in Netherlands increased by 15% to 11 million plan participants, a reflection of the trust customers are placing in us.

Net deposits amounted to €1.2 billion in the quarter, as they were impacted by anticipated contract discontinuances from the Mercer block. We expect elevated contract discontinuances to continue throughout 2016, with net deposits increasing thereafter. Our life and protection sales were down 11% and 8% respectively. This decline reflects our continued focus on profitability of sales. And on the next slide, I will elaborate on the actions we're taking to maintain sales at a profitable level.

As rates have continued to trend lower and lower, we're actively redesigning and withdrawing existing products and launching new ones. This often means repricing capital intensive products and replacing them with capital-light alternatives. An important achievement this quarter is that Aegon was the first company in the Netherlands to receive approvals to launch a general pension fund, so called APF. This pension pooling vehicle enables separate financial administration for multiple pension plans and allows smaller pension schemes to benefit from economies of scale, while complying complex pension regulation.

Our general pension fund, called Stap, leverages our industry-leading administration and asset allocation capabilities. We have really secured a large contract and are in an advanced stage of closing two others, strongly position us (16:04) as the leader in the pension market.

I'm now concluding on slide 13. Although this was a challenging quarter from an earnings perspective, it was also one, in which we strengthened our capital position and made a series of significant steps in execution of our strategy. We are accelerating the actions we are taking to transform our company, to increase our returns and to become a more customer-centric organization. I'm, therefore, confident that we will continue to make significant progress towards the 2018 targets.

This concludes my prepared remarks for this quarter's results. But before Darryl and I take your questions, I would like to spend a few minutes to talk you through the acquisition of Cofunds, which we announced today.

This acquisition is a unique opportunity to further accelerate the execution of our UK strategy. The acquisition of Cofunds, together with the recent acquisition of BlackRock's Defined Contribution business, gives us a market-leading position and scale in the workplace savings and retail platform market. We're able to use this scale and our existing technology to drive £60 million of expense savings, reducing our combined digital cost base by 25%.

What's more? This acquisition enables us to rapidly develop our distribution footprint, gaining opportunity in the retail advisor space, where there is minimal advisor overlap and a new business relationship with Nationwide, the UK's largest building society. And before I give you more color on these benefits, let's first take a step back to explain how today's announcement fits well with our strategy.

I'm on slide 16. Five years ago, we embarked on a strategy to transform Aegon UK into cost efficient and scalable digital platform business. This enables us to not only compete on administration, but also on investment solution, Asset Management, and customer guidance. And since then, we've built a very successful award-winning platform that services all segments of the market.

We've had great experience to date, upgrading over 200,000 existing customers with about £4 billion of assets. But continuing with our own customer upgrade program, we will work with advisors to support the upgrades to new, modern digital solutions as part of the

Cofunds acquisition. Customers can then consolidate more of their savings in one place rather than being restricted to one product solution or to an outdated investment proposition. In the past few months, we have announced several strategic transactions that enable us to accelerate the strategic transformation of our UK operations from a traditional life insurance and pensions company to a platform business.

We have divested our annuity portfolio, acquired Cofunds and BlackRock's DC business, and by doing so, we have reduced our exposure to longevity and financial market risk, while at the same time, adding additional capabilities and significant scale to our platform business.

You can see on slide 17, the acquisition of Cofunds and the recently announced acquisition of BlackRock's DC business, enables us to complete our strategic transformation into a market-leading digital provider. After these acquisitions, we'll be number one in the retail platform market and number three in the workplace savings market. We are also able to provide services to orphaned customers.

The platform market is growing rapidly, and we expect the size of this market to be over £1 trillion by 2020, and this will be made up of business from the retail advisory market, corporates, and non-advisor business. And we're well positioned to benefit from scale across all of these markets.

Cost synergies are key elements to acquisition announced today. And as you can see on slide 18, we will be taking out over 25% of the combined digital cost base following the acquisition. And we're very confident that we can deliver at least £60 million of cost synergies. Two reasons, first, because we have a scalable platform technology that we can leverage to re-platform the Cofunds business. Second, Aegon UK has an excellent track record of delivering on expense savings. The third benefit of re-platforming the Cofunds business is, of course, that this also brings significant advantage to our customers, and their advisors, a benefit include less paperwork, a broader investment range, and integration of pensions on the platform.

By combining the strong heritage of the Aegon UK business and pensions, with the market-leading capability for ISAs and general investment accounts brought by Cofunds, we will be able to offer a full proposition to each of our chosen markets. Offering a wider range of products in combination with limited overlap in distribution network is expected to lead to attractive cross-selling opportunities.

Slide 19 shows just how attractive this transaction is from a capital perspective. The net capital investment is limited to £50 million, as target expense savings will enable us to reduce expense levels of Aegon's existing insurance business, and therefore realize a capital benefit of £150 million. Our capitalized strategy is expected to result in predictable, growing capital generation going forward. Post-integration of the Cofunds transaction, we expect our business in the UK to generate £70 million capital per year and growing as the platform grows. The incremental £50 million of capital generation from the Cofunds acquisition reflects the expected addition to net underlying earnings.

Let me now summarize why this acquisition of Cofunds is so attractive to us. But firstly, it requires only a modest net investment of £50 million to generate an incremental £50 million of capital generation per year. Secondly, the transaction has a payback period of only three years and it contributes to achieving the group return on equity. And thirdly, Aegon UK maintains a solid capital position, which will enable it to resume dividend payments to the group in 2017, in line with our earlier guidance.

So, Darryl and I are now happy to take your questions about this transaction and our second quarter results. Thank you.

Q&A

Operator

Thank you, sir. We will now take our first question from Ashik Musaddi of JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning, Darryl. Good morning, Alex. So just couple of question. Can you give us some thoughts about capital generation and dividend upstreaming? It looks like the UFR benefit in Netherlands has gone up quite a lot, so what does it do to your guided €250 million of capital generation in Netherlands? And if rates don't go up, interest rate don't go up, then would you be comfortable upstreaming dividend from Netherlands in two years, three years? Or do you think that the gross underlying capital ex-UFR is very weak, it will drag the capital remittance from Netherlands?

Secondly, as you mentioned in one of the slides that UK will start upstreaming capital next year, but how should we think about it? Shall we think about like €20 million a year because Cofunds cost savings will not come in two years', three years' time? So, how should we think about that?

And third question is, can you give us some thoughts about U.S. capital as well, because in third quarter, you will be doing this cash flow testing as well as updating your assumption, so what could be the drag on your U.S. capital? And are you feeling comfortable with your U.S. capital at the moment? Thank you.

A - Darryl D. Button {BIO 7089946 <GO>}

Okay, Ashik. This is Darryl. I'm going to try and hit those in order. I think basically capital questions for the big three units.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

A - Darryl D. Button {BIO 7089946 <GO>}

Yes, the impact of UFR is larger, now that rates have dropped significantly over the last two quarters, and you'll see that sensitivity that we provided, it's about double of what it was back in January, so we're saying it's about 19 point for (24:55) a 50 basis point drop on the UFR. That does have a flow over impact to cash generation in the Dutch operations. We are downgrading the €250 million per year, down to €225 million, because of that additional UFR.

You did ask about dividend expectations in the Netherlands, I think, it was your second question. There, I would just say, first of all, we're feeling a lot more comfortable about the capital obviously in the Netherlands at the 154% ratio, where we are, but there is an important conversation and debate happening on the UFR in the Solvency II curve, and that's an EIOPA discussion that's happening in the second half of this year. I think you know the proposal from EIOPA is to drop the UFR by 50 basis points spread over the next three years. So we obviously want to watch that debate play out and see where that goes. That, obviously, would have an impact on our Dutch capital ratio.

In terms of dividends, I actually still expect to receive a dividend from the Netherlands this year, but I would say, albeit something lower than the €250 million that we guided to earlier. But frankly, that's a decision that we're going to make in the fourth quarter when we have the knowledge of the whole UFR discussion.

In the UK, I think there were – we try to show you where we think capital generation gets to in the UK, and we're going to – when we put all the pieces together, we're going to come out around that €70 million, and expect to grow from there. But I think the other thing you need to think about as you think about 2017 is that, as we put all these pieces together, the actual capital investment from the acquisition is fairly minor, because of the expense synergies. And then, we still have some release of capital coming from the Part VII transfers. So, I think when we sort of put all the pieces together and find ourselves in 2017, we'll have some balance sheet strength that can supplement that €70 million from a dividend perspective. And that's the way I would think about that.

And then, finally, I think in – your last question was on the U.S., on cash flow testing. Yeah, rates are lower, so we know that that will have an incremental impact on cash flow testing. I don't think it's going to be the variety that, I would call, material disruption from the cash flow we expect to receive in dividends from the U.S., we are and continue to ride at the higher end of our RBC range in the U.S., but I see some modest compression on RBC ratio from cash flow testing, but not enough to disrupt the dividend flow.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thanks. Just one follow-up on this Netherlands thing, I mean one of your competitors said, I think last quarter that based on first quarter interest rate decline, their cash flows or capital generation went down by €100 million, and given that what we have seen in second quarter, it would have been a lot more as well. And you're kind of guiding just €25 million drop. So, what are we missing here, any thoughts on that? Just quick one, sorry.

A - Darryl D. Button {BIO 7089946 <GO>}

Yeah, I can't comment on our competitor. We're not seeing numbers that big.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Darryl D. Button {BIO 7089946 <GO>}

But I would say we maybe had some prudent estimates in the €250 million to start with, but we're not seeing that kind of drag. I think the other impact also is – a thing you have to also keep in mind is that the new business is quite low right now in terms of any capital intensive DB business in the Dutch business, that's also extremely low, and that has a beneficial impact on capital as well.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thanks, Darryl.

A - Darryl D. Button {BIO 7089946 <GO>}

Yes.

Operator

Our next question comes from Albert Ploegh of ING Bank. Please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning. Few questions from my end, sorry to come back to the Dutch cash flow outlook. You mentioned the UFR impact is only an additional €25 million. So, the management actions taken itself in the first half that will have done basically no structural negative impact on the cash flow outlook? That's my first question.

The second question is, if I look at the dividend upstream in the first half or in the second quarter maybe (29:25) around €600 million. I also saw, of course, contribution from Asset Management in the Central Eastern Europe of about €140 million, how should I see that number? Is that basically the majority that you expect from these units in the first half or can we still expect something for the second half?

And then, a question a bit forward looking, as also previously you alluded in the previous question on the assumption reviews, you already gave some answers on the cash flow testing. We saw some U.S. competitors making already some adjustments in the second quarter and some also material. How do you look at those reviews with certain element of confidence or can we expect maybe some material more, of course, non-cash items? What's the material impact in the third quarter from that? Thank you.

A - Darryl D. Button {BIO 7089946 <GO>}

Yeah. Hi, Albert. It's Darryl. I'm going to try and take those. First answer is a short one. We don't see any impact from the management actions on the Dutch Solvency ratio on the

€225 million, so really the €250 million is down to €225 million on the UFR, and there's no impact on the management actions from that.

On the dividends upstreams, we did receive dividends from Asset Management, few other places. I would also say there was an extraordinary dividend that came up from Spain as well and that related to the Santander joint venture acquisition that we had on that distribution relationships. So there was some capital that was trapped in that for a period of time and that's released itself and so that is in that €140 million. I wouldn't certainly expect that to reoccur.

And then, on the third question, I think on the Q3, assumption changes, you were commenting on some of things that have been going on for some of our U.S. competitors. Couple of things, there are a couple that have moved their long-term interest rate assumptions. If you look at that, they've moved them now on top of where ours already are. So, I think there's probably not a lot of pressure for us to look at that $425 million 10-year U.S. Treasury assumption. We're really kind of middle of the pack on that assumption. And then in terms of the rest of it is we're just in the middle of our normal process, where we'll take a look and review all our actuarial and economic assumptions for the third quarter, and I don't have any real insight one way of another to share with you today.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Maybe two small follow-ups. First of all, on the – looking back at the Capital Markets Day in January, if I'm not so wrong, I think you guided basically from let's say holding free cash flow of €1 billion post-holding costs. I know your remark on the Netherlands that you do still expect some dividends in the second half of the year. So with all the moving parts in the first half, I certainly need to update that kind of guidance or do you still feel reasonably comfortable? And then, on the revisions, I also saw one of the competitors managing some industry reports on I think it was more on a GMIB book, I know it's not a material book at Aegon, but do you – yeah, what can you comment on that?

A - Darryl D. Button {BIO 7089946 <GO>}

Well, on the first one, on the net operating free cash flow of €1 billion, that really is the €1.3 billion of the operational free cash flow that we have across the units minus €300 million of Holding, and that's your net $1 billion. And that still pretty close to being a good number right now. The only real downgrade we've had is the €250 million in the Netherlands down to €225 million, and then a modest downgrade in the UK, if you will, on the €70 million instead of the €100 million. But if you factored that into it, I think you're pretty close, maybe a little bit downward pressure on that, but not far off.

And then, on your last comment on the GMIB, maybe I didn't quite the question, but the GMIB is still is a material book for us in terms of the – we haven't been selling it since 2002, but that is still the book that's the source of the $60 million loss through fair value items below the line that we take every quarter.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Maybe we can take it offline, I thought there were some industry reports on behavioral assumptions that took one of your peers to take some charges, but...

A - Darryl D. Button {BIO 7089946 <GO>}

Oh, well, there was a large GMIB writer in the U.S. that took some large assumption changes this quarter. You can go back and have a closer look at that, and I'm happy to have an offline conversation with you on that, if you want.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. No worries. Thank you.

Operator

Thank you. William Hawkins of KBW. Please go ahead. Your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Can you just be clearer now about what incrementally is under review in the U.S.? I'm assuming long-term care falls into that, but if you could just be a bit clearer. And then, specifically, on long-term care, can you just remind me of the size of the reserves you're currently carrying, roughly what are the rates increases that you're asking for in these 20 states? And do you have any issue there about what you think you're going to be able to achieve versus what you actually want to achieve on that, because clearly it's a highly regulated line?

And then secondly, in the variable annuity book, if I'm not correct, you're now no longer sticking with that 70 basis point margin that you guided to just in January. So you've already alluded to a couple of things, but can you just be clearer about what's gone wrong in the past few months, and what we should be thinking that 70 basis points should be in the future? I'll leave it at that for now. Thank you.

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

So, let me give you an answer. So, what we're seeing on our U.S., business is that – by the way, as part of an ongoing review, we are accelerating (35:21) review on all our products and business lines, we think we need to rationalize our product offerings, particularly in our life area. We have too wide range of products, which are all slightly different from one another, because they're sold to different distributors. And there is clearly an opportunity as we rationalize the product line to look, by the way, at what products we want to continue, what products we want to redesign or exit, all in line with our state objective of having products that are both attractive to our customers and attractive to us. So you need to look really at – more at the life part of the business.

Let me remind you, long-term care is a business we haven't been selling for over 10 years, so it's more of a run-off business that we talk about, although we have introduced a new type of long-term care product, which is a very different product, because it's not at all with open benefits, the new product line long-term care has very defined benefits and it's not at all subject to all the discussion we're having about rate increases. So we need to make sure that there are two parts to that, that you're well aware of it.

In terms of rate increases, yes, we are filing and have filed and pursuing that quite actively with over 20 states. The 20 states represent 70% of our business long-term care. And at this point in time, what I would like to say is that, we are feeling better about the progress we're making. I don't want to be explicit on which states we have had what approvals, but I cannot share you that we have made good progress in having approvals.

I also believe that the environment is changing, in particular with the recent bankruptcy, which was announced by Penn Treaty, which makes clearly the point to regulators also, because the judges have been very clear about that, that one of the reason a company would bankrupt is that regulators did not afford and did not allow rate increases that should have taken place. So you probably hear we're speaking now clearly more positively about the outcome of the rate increases, which we're able to get through long-term care, than you've heard us speaking for some time.

In terms of the variable annuity, I will give you a general comment, and if you have further questions, certainly, Darryl can chip in, but I would say, here we seeing a number of things. First of all, we're seeing that margins are declining. Margins are declining because of low interest rates, means that we're earning less margin than we did in the past. We also seeing that, with our efforts, as you remember, on our efforts to reduce the GMIB book with our ALSO program, we're also seeing a margin compression, because that business has higher margins than the margin we have right now. And finally, we see that new business is effectively replacing older business at lower margins, all as a result of lower interest rates.

So, in terms of guidance, it is clear that, in today's environment, it is difficult to hold on on the 70 basis points, which we've guided you. But we also operating now in a significantly different environment with interest rates much lower with a big uncertainty about sales outlook, because of the Department of Labor, and a combination of that has led to a margin compression of where we're.

What we're doing is taking steps here. We can be very explicit. We had actually restructured significantly our wholesale organization, and that means we have limited the number of wholesalers plus the people around that support them. We've given them bigger territories, so that we can hold on the best wholesalers, while having a less large number of wholesalers that are selling. So, we here also adjusting our business and structure to the environment, which, because of the rates as they are today, combined with the uncertainty around DOL, is clearly making more difficult to hold on on the larger margins.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. I'll probably come back offline, but on the variable annuity comment, I can see very clearly that the world has changed since January, and therefore there are incremental headwinds, but to the extent of the 70 basis point margin was effectively an in-force figure, I'm surprised that that would lead to such an apparently material and quick change in the in-force figure. I'll back offline on that, but I'm just a little bit surprised.

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

Yeah. Well, come back offline, but please keep in mind, what I just said it's about run-off part of the business in the high margins related to our efforts to release capital for GMIB and it's also effectively what we see, net deposits are lower than they were, because our gross deposits are lower, that means we have more new business at lower margins.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Thank you, guys.

Operator

And our next question comes from Nadine van der Meulen of Morgan Stanley. Please go ahead.

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

Good morning. With regard to the U.S. RBC ratio, the drop in the RBC ratio, can you maybe elaborate a little bit more on the drivers behind that apart from the equity market perhaps, because I was under the impression that lower rates, given the sensitivities that you've given before, would actually be a positive impact on that ratio? And maybe in light of U.S. capital, would you mind giving us an indication of where the surplus of the AA S&P requirement is in the U.S., because a year ago you mentioned that that was $1 billion. You said that this was quite volatile, it dropped to, I think, around $600 million (40:50) when we talked about it at the Investor Day. And last quarter, no update was given. So I was wondering if you could give some details around that. Thank you very much.

A - Darryl D. Button {BIO 7089946 <GO>}

Yeah. Hi, Nadine. It's Darryl. First of all, on your first question, RBC ratio dropped primarily from the dividend that was paid from the U.S. and so we upstreamed about $500 million of dividend to the Holding, and that's primarily the biggest drop. I would point out that actually our sensitivity has now changed in the U.S., rates are now at the point – we used to talk about with rates would go down, we have a short-term boost to the RBC ratio and vice versa.

We're now down to the point where rates are so low that rates dropping, and dropping from here or even where they are now, lower rates does not boost the ratio, because of the cash flow testing concerns that we have. So there is no benefit in the quarter from dropping interest rates. I think we actually, we took a small provision for cash flow testing that will be only – it's an annual calculation, so that will only be firmed up at the end of the year, but the biggest drop is the dividends.

On your second question, actually we're not disclosing any longer than the excess over S&P AA. We moved over to only talking about the RBC ratios, and that really primarily – I think, as you know, we manage multiple different capital metrics in the U.S. But the RBC ratio has the flow through into the group ratio and the Solvency II. They are correlated obviously, so we're going to continue to discuss RBC ratio and that's also very consistent with what our U.S. peers do as well. So, it's right, I'm not going to give you that number.

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

All right. Thank you.

Operator

And our next question comes from Mark Cathcart of Jefferies. Please go ahead.

Q - Mark David Cathcart {BIO 19783252 <GO>}

Yeah. Hi, Darryl. I've got a couple of questions. First one is, just wonder if you could talk about your assumption of €70 million cash from the UK. Have you assumed further margin pressure in the platform industry as a whole, given the current headwinds in the UK? So, I wondered if you could talk about your assumptions on how you expect margins to progress within the UK platform market generally, because they seem to be quite negative at the moment.

Second, in relation to your interest rate sensitivity in the Dutch market, you had negligible interest rate sensitivity at the beginning of the year. This has exploded to, I think, largest in the entire sector. Was that mainly because you took off the hedge at the end of January?

Third question is, you talked about no comment in relation to the modeling review Q3, I think you said that on the call just earlier. But previously, you've always voiced confidence that you wouldn't have any more monthly mishaps. I wondered, if you could comment on that. And as an aside, can you confirm that the cash at the Holding is actually all funded by debt elsewhere within the group? Thank you.

A - Darryl D. Button {BIO 7089946 <GO>}

Okay, Mark, sorry, I was still jotting down the last. I think I missed the last question, I'll come back to you on that. In order, the €70 million, yes, our guidance on where we're coming out, we think in cash generation from the UK, that does reflect our view of continued margin compression in the UK. So that is – we have made some estimates around that. We do see that pressure and we've built that into that estimate.

On the Dutch interest rate sensitivity, it is markedly higher than what we had before. I think it's a combination of – yes, largely, we did change some of our hedging programs, we had – when we were hedging on our full IFRS basis, we had quite a bit of over hedging in place, particularly as it relates to the own funds in Solvency II. There is a – without going too long here and too much dilemma (44:58), there is an issue on – a philosophical issue on whether or not you hedged the denominator in Solvency II. You can create or destroy economic value by protecting things that move around like for instance longevity and credit risk, have an interest rate element to it.

If you hedge that, you will gain or lose on those hedges, and while those underlying longevity in credit unwind, that interest rate hedge won't unwind. So that is a philosophical issue we continue to struggle with in terms of do we project capital or do we project the economic value of the organization. We did move the hedges towards Solvency II in first quarter. We backed away from that position somewhat in the second quarter as we – when we did that pre-Brexit. So, we're somewhere positioned in between the two, right now. What that means is we have losses on IFRS, if rates fall, which is exactly what we have in our fair value items this quarter. And we have own funds or economic gains in Solvency II, which we also have this quarter.

This interest sensitivity really comes from the denominator impact in the SCR. That, combined with the fact that rates have now dropped to a new structural low level, has also made us more exposed as well. So, it's a combination of all of those things, also the – just a more granular approach that we've had to the modeling as well. So, I would say it's all of those factors, and that's all built into the sensitivity that we're sharing with you today.

Your third question was on, Q3 foresight. Yeah, so...

Q - Mark David Cathcart {BIO 19783252 <GO>}

Yeah. You've expressed confidence, I just wondered how confidence you guys now, given what U.S. peers have been saying.

A - Darryl D. Button {BIO 7089946 <GO>}

Yeah. And I think you are specifically asking modeling versus assumption changes, and I think it is important to separate those. So, I continue to believe that we have the modeling issues behind us, and I don't really see any further impact from models. In terms of assumption changes, yeah, it's what I said before, it's still early in the process, and we're working through those, and I'm really not in a position to give any foresight into where I see the assumption changes going, (47:12)

Q - Mark David Cathcart {BIO 19783252 <GO>}

Yeah, and in relation to the UK, I still struggle with that, because you were suggesting that Retiready was going to break even, and then break even again and then break even. How aggressive have you been in terms of those platform assumptions, because I think in reality, platform is regarded as a loss leader in the UK life industry, not a key business?

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

Mark, maybe I'd like to add something to this whole debate. As you probably would very well know, this is a very changing environment. And so, we have embarked on a – and I'd like to give you a broader answer, because I think there would be of interest to also the broader look. The reality is that we are moving and have moved quite aggressively from a traditional model of life insurance and pensions towards a platform model. It's a very significant change.

And then, in the meantime, what we're seeing is that as you could expect that in the margins, the platform business have been declining. On the other hand, it's not uniform, because parts of our books in our platform have been upgraded from our old books. So, all the customers that have been upgraded effectively, we have seen pretty limited margin compressions, because we're able to upgrade customer's from the old book on to the platform, while we're providing them a better service capability that allowed us to justify to hold on the margins, and we have seen limited margin erosion.

Where we see most of the lower margins, of course, is when you look at the business with advisors and it brings us exactly to the point that is all about scale, and this is scale game. And therefore, this acquisition of Cofunds, and I would like to bring Cofunds in here, brings us 750,000 new customers, brings us £77 billion of assets, as you can imagine, and you can calculate very easily, at a pretty low margin. This is a much more effective way for us to attract new customers in an environment, where it's all about scale. This whole game is scale. And what we're trying to do here is use and leverage the platform we have in the UK, which is a recognized state of the art platform, recognized by employers (49:26) on the pension side, by advisors, and also by the parts of the business that I would say is non-advised, do it themselves or orphaned customers.

And what we're trying to do is put – use debt (49:37) to drive scale and therefore also to maintain our margins in this business. Having said this, the biggest part of the margins we believe forward are not only about recording keeping, because you're right, record keeping fees are going down. We see that very clearly in the U.S., for example, where in some parts of the business, it's very marginal. It's all about providing a service, providing investment solutions and I've mentioned it in my introduction and also starting to be more active on the guidance area. And that is where we'll be able to earn better margins than what you would be earning, if you would be only in a kind of administrative record keeping kind of platform. So it is a combination of quite a number of factors, where you have declining margins as well as you're rightfully point on the record keeping part, which you offset by scale and by providing additional services.

Q - Mark David Cathcart {BIO 19783252 <GO>}

Did you at any stage consider letting someone else become market leader in platform, i.e. exiting the UK entirely? Or is it always your intention to maintain a position in the UK?

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

We have a very successful platform, which was built with modern technology, which is very scalable. As you know, we have the BlackRock's DC business, which was moved to our business. Effectively, BlackRock entrusting their customers to our platform. I think it's a clear sign of recognition of the platform. And we think that if we have such a capability and we are able to take advantage of what I think is unique opportunity to in one-go get significant amount of assets on your platform, this is certainly something which is very interesting and being the market leader in this market is very important, because as I said to you, it's all about scale.

Q - Mark David Cathcart {BIO 19783252 <GO>}

And in relation to Dutch dividends, Darryl said wait and see in relation to the decision on the UFR. If the UFR is minus 20 bps, minus 10 bps over the next three years, in that situation, could you let us know or tell us whether you believe, in that situation, you will be able to upstream dividends or is it just a general question mark over Dutch dividend paying capability? It seems too ambiguous how you express that?

A - Darryl D. Button {BIO 7089946 <GO>}

What I mean – Mark, let me try to be more clear on that. So, first of all, as it relates to the issue of Dutch dividend, in general, we're obviously feeling much better about the capital ratios of where we stand today. I did try to highlight that if you drop 50 basis points on the UFR curve, granted that would be spread over a three-year period, but that's 19 points off of our ratios. So that moves us from sort of high-end to low-end, although you could obviously spread that out over the next three years.

I think you also have to consider that the ratio – just the journey we've been on, so the ratio has moved around quite a bit lately between the first quarter and the second quarter. So we do want to see that stabilize. That's not market volatility, as I mentioned before, it was really just our more thorough application of the models and getting into the granular data, we still had some growing pains in getting through that. So, we need to see some stability to that ratio. We need to see where this UFR debate comes out, because it is material on the ratio. But if you factored all of those, those are all of the things that will go into our management decisions in terms of when and how much to upstream dividends out of the Dutch organization. That being said, I'm fairly comfortable repeating what I said before, I do expect to take a dividend out this year, albeit somewhat lower than the €250 million that we mentioned earlier.

Q - Mark David Cathcart {BIO 19783252 <GO>}

But some say you do expect to go back to a €225 million dividend paying capability?

A - Darryl D. Button {BIO 7089946 <GO>}

Yeah, very much so. I think that's the cash generation that I see coming out of the business. So, we have to kind of sort out where the ratio is coming out, where our sensitivities are, where we're comfortable in that. But yes, €225 million is what I would peg as the cash generating and ultimately the dividend capacity out of the Dutch organization.

Q - Mark David Cathcart {BIO 19783252 <GO>}

Okay. Thanks, Darryl. That was excellent. Thank you.

Operator

Our next question comes from Nick Holmes of Société Générale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Three questions. Firstly is, just coming back on the mortality and long-term care losses in the U.S. that have appeared in Q2, I just wondered if you could give us a little bit more color on those. And do you expect the rate increases you're filing to basically fix that problem?

Then, secondly, just very quickly, just wondered what's your thoughts on the DOL reforms are at the moment. What is your latest thinking there? And then, third and finally, perhaps more of a difficult question. I wondered if you could comment on your thinking about the variable annuity policyholder behavior assumptions that you have at the moment. Clearly, MetLife has thrown this issue into the open, as an industry issue. And I just wondered, Darryl, whether you could give us some kind of thoughts going into Q3 as to whether you feel comfortable with your assumptions. Thank you.

A - Darryl D. Button {BIO 7089946 <GO>}

Hi, Nick. I'm going to take the first and the third, if that's okay. Mortality and long-term care; the mortality, I would really put that in the line of just normal fluctuation, that's really not a very big number. We've seen – we've changed our mortality assumptions, as you know, earlier, and we've seen fluctuation around the mortality in line with this pluses and minuses. So, keep in mind, we are and have retained more life mortality risk in the U.S., as we're carrying less reinsurance than we used to a few years ago. So, I would just very much put that in line with normal fluctuation, and we've seen pluses and minuses around our assumption.

So, on the long-term care, where we've had a couple of quarters now with poor performance. We are seeing termination rates in terms of people coming off claim is the cause for the higher claims, it's deteriorated. And specifically to your question, yes, rate increases helps that issue, and as we continue to make progress on the rate increases, that provides a significant offset to that.

On the third question, it was on variable annuity policyholder behavior, you specifically referenced Met. We did update our policyholder behavior assumptions on the variable annuity last year actually and we feel pretty good about our assumption. So, we've done a lot of what Met has done already with one exception, they flipped the old GMIB product over to fair value accounting. And that probably is a big source of the hit that they took. We do not have our old GMIB product on fair value accounting. We still have it on the SOP 03-1 accounting, which does create that mismatch between the hedges and the accounting and that is the source of the $60 million drag in fair value items every quarter that we flag. So, that's probably the one main difference that we have, but I think a lot of the assumption changes we've already made those, taking those and feel good about what we have, so...

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you for that. That's very, very assuring. Just quickly on that last point, would you keep the SOP 03-1 basis going forward? You won't do what Met did?

A - Darryl D. Button {BIO 7089946 <GO>}

Yeah, I can't comment on that. I have no plans in the near-term to change that. I guess I could say that, and I'm not going to commit to anything in the longer term.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you.

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

So, let me the DOL question very briefly, because effectively, there is not very much more to report right now than a quarter ago. What we see here is that, in most cases, our consumers are not really aware of the changes. What we seeing is distributors, they have been very busy looking what the impacts of the rule are, and also trying to assess to what extent they will use exemption as you know, that's going to be part of the whole debate, who is going to use what exemptions under these rules. So we are engaging and starting to engage and communicate with our distributors to know where they are.

But what I would like to say here is that, we're making ourselves ready. We have already products that are suitable under the new DOL environment, and we'll continue to make those products ready, and hopefully, by the end of Q4, we should be in pretty good position.

Q - Nick Holmes {BIO 3387435 <GO>}

And just very quickly following up, Alex, your thoughts on the impact on sales going forward? Any...

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

Again, difficult to say, because I think, in this environment of very low interest rates, obviously, the product has become less attractive, because of the increased pricing on the guarantees. It's difficult to say where we've seen the overall market effectively coming down.

Another question is to what extent is that reflected already in the market as it is today. Well, we probably expect a further decline in sales overall in the market. That's not necessarily meaning that for us we will see the same impact, because, as you know, it's also related to what part of the market (59:09) is qualified and what part is not qualified.

Q - Nick Holmes {BIO 3387435 <GO>}

Right. Thank you very much.

Operator

Thank you. Our next question comes from Bart Horsten of Kempen. Please go ahead.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning. I have a few follow-up questions on some of the topics already addressed. First of all, on the interest rate sensitivity in the U.S., obviously the decline - further decline in interest rates has negative impacts, but an increase in the interest rates, obviously, according to the sensitivity table, has no impact or at least no impact on your

Solvency ratio. So, I was wondering, whether you could explain that mismatch between a downward and an upward change in interest rates. And what would be a potential impact, if the Fed would decide to increase the short-term interest rates? Would that have any impact on your profitability or on your Solvency?

My second question also relates to the restructuring plan, the five part plan of the U.S. Could you give a bit more financial detail, because as far as I can tell, you have not changed your cost savings targets? So could you give some more financial color on these plans? And my final question is a small one on the net deposit growth in U.S., it was in the second quarter close to zero, where you had a gross inflow of $10 billion. I think you briefly addressed on Mercer impact. Could you highlight what the impact going forward will be and what you expect on that? Thank you.

A - Darryl D. Button {BIO 7089946 <GO>}

All right. Let me jump in on the first one, Bart, on the U.S. interest sensitivity, so, what you have to understand is there is a sort of two competing dynamics on the U.S. interest rates sensitivity. The old dynamic is still there, where if rates fall, we have gains on low rate hedges that come into cash, and come into our statutory earnings in the U.S. and that creates a positive. And if rates go up, then we have a loss on those same hedges and that reduces our U.S. statutory earnings. So that sits there in the background unchanged. The new dynamic is that, if rates fall, we are in a position where we're starting to post additional cash flow testing reserves just because of the nature of that overwriting cash flow testing mechanism. So when you factor those two things - and they are asymmetric, and when you factor those things and add them together, you sort of get this asymmetric net result that you're seeing in front of you.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

A - Darryl D. Button {BIO 7089946 <GO>}

I think on the - did you want, Alex, on the financials for the...

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

Yeah, for the five part plan, I'd like to remind you, Bart, we have given ourselves and we shared that with the markets in January, on the U.S. a $40 million target of expense savings for the U.S., we have already achieved $60 million. So, we're well ahead. And what I will not do at this stage is give you more explicit numbers, but what it is all about is, accelerating the pace of our cost reductions. I've mentioned specifically number of items, and in our December IR Conference in New York, we will provide you with more financial numbers.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

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

But I can assure you we have a plan behind it, but it's now too early to share this with the market, because with these things, you've got to do that sharing it first internally, discuss this with the people and at the locations that are involved before doing that externally.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

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

And on Mercer, yeah, the story is a simple one. When you take over a block of business from a provider with around $80 billion of assets, it is – and expected – and by the way also priced in as that we would see some lumpiness in these deposits. Often, as you know, with these plans, they get reviewed in number of times, let's say every five years, and when there is an event, for example, Mercer being acquired by Aegon is an event, that sometimes triggers pension reviews. And then, you see, it's very normal to see that you are effectively losing number of these contracts. In many cases, these customers were already prepared to make a change, and then the takeover is a trigger event. We do expect indeed this continues for the Mercer block, that is anticipated for me to continue a bit until the end of this year.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you. And maybe just on the Fed rate rise, would that impact your business immediately or is that a lagging effect?

A - Darryl D. Button {BIO 7089946 <GO>}

Oh, yeah, on the Fed – sorry, I forgot that part of your question.

Q - Bart Horsten {BIO 2390919 <GO>}

No problem.

A - Darryl D. Button {BIO 7089946 <GO>}

Yeah. Actually, the short rates really don't do much for our business anywhere. And so, in terms of impact on our earnings or on cash generation out of the U.S., it's really the longer term rates that matter. So you have to then just cross over. Does the Fed increasing rates in the short-term is that something driven by whatever bullish nature that's driving that and does the market already picked that up and what happens to longer term rates is what really matters to us.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

And our final question comes from Steven Haywood of HSBC. Please go ahead.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Good morning, guys. You've previously said about reviewing and, sort of, disposing your run-off businesses that require interest rates to go up before you achieve any kind of attractive prices. Has this changed? Are prices going to be unattractive now and continue to go unattractive? And will you be able to sell these businesses or review this business, should I say, at the unattractive prices?

And then, my second question is on your Holding cash capital buffer. I just wanted to then work through one of the equations, one of the calculations that you've done. There is a €200 million share buyback in Q2, and then you've paid €0.13 per share dividend to around 2 billion shares. Now, that's around €300 million in cost, so I'm just trying to work out why you've only accounted for about €400 million negative in your Holding company cash capital buffer for the dividend and the share buyback in the second quarter. Thank you.

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

Let me take the first question, yes, we did say that for run-off businesses, which is we would like to dispose, because they are not adding much to our earnings, while there is a big amount of capital, which is sitting (01:05:46) there that we would be looking at rates of 2% to 2.5% on the U.S. Treasury. Now, we are looking again at the different options we have and we believe that effectively we could be able to do a transaction that would be attractive from us from an IFRS and a capital position at lower levels.

I would like to remind you also here that there is a counterparty risk we have to take into account because we are not setting a legal entity. We are effectively reinsuring to another entity and therefore it's a combination of pricing, market conditions and the counterparty risk, it's more complex than purely a pricing. And just on the Holding expenses, what you need to take into account is that the script has been bought back after the end of the second quarter. And as you take that into account, your equation should work level.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Okay. So there is an additional bit to come out in the third quarter?

A - Darryl D. Button {BIO 7089946 <GO>}

Yeah. Correct.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Excellent. Thank you very much.

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

Right. I'd like to thank you all for participating on second quarter call, and I wish you a great day. Thank you. Bye-bye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.