Y 2019 Earnings Call

Company Participants

- Alex Wynaendts, Chairman and CEO
- Jan Willem Weidema, Head of Investor Relation
- Matt Rider, Chief Financial Officer

Other Participants

- Albert Ploegh, Analyst
- David Motemaden, Amalyst
- Farooq Hanif, Analyst
- Fulin Liang, Analyst
- Johnny Vo, Analyst
- Nick Holmes, Analyst
- Robin van den Broek, Analyst
- Unidentified Participant

Presentation

Operator

Good day and welcome to the Ageon Second Half Year 2019 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Jan Willem Weidema. Please go ahead, sir.

Jan Willem Weidema {BIO 15133400 <GO>}

Thank you very much. Good morning, everyone, and thank you for joining this conference call on Aegon's second half 2019 results. We would appreciate it if you could take a moment to review our disclaimer on forward-looking statements, which you can find at the back of the presentation. We will start today with our CEO, Alex Wynaendts, who will give an overview of where we stand with regards to delivery of our strategy and what we have achieved in the first half --- second half of this year. After that, our CFO, Matt Rider will walk you through the financial highlights on the second half of 2019. At the end of the presentation, we will of course leave plenty of time for your questions.

I will now hand it over to Alex.

Alex Wynaendts {BIO 1821092 <GO>}

Thank you, Jan Willem, and good morning, everyone. Thank you all for continued interest in Aegon and for joining us on today's call. So, let me begin on slide 2 by giving you a summary of how I look back at the last 6 months. In this period, we continued to operate in what is for a Aegon a challenging environment with persistent low interest rates in combination with declining bond spreads. This had a negative impact on the underlying earnings, in particular in our US business, where we've also seen outflows in our retirement and annuity businesses. And as a result, we have unfortunately not been able to meet our return on equity target of 10%.

However, on the positive side, we are seeing that our commercial momentum is improving, with increases in Life and Accident & Health sales as well as in gross deposit. At the same time, we have strongly increased our capital generation and we have taken the necessary management actions to increase our capital position in the Netherlands. And on the back of our strong capital position and capital generation, we are announcing an increase in our dividends of 7% compared to last year. This takes me to slide 3 where we will discuss our medium-term financial targets in more detail.

As you can see, we have normalized capital generation of EUR1.6 billion last year, which supports our cumulative 3-year target of EUR4.1 billion. Gross remittances were slightly below our 2019 target. However, when you create proceeds from the sale of our stake in the joint ventures in Japan, which we announced in May 2019 and which we closed in January of this year, gross remittances total EUR1.5 billion, in line with our target. We did however fall short of our return equity target in a challenging low rate environment. But we remain committed to taking all necessary management actions to achieve this target. Let me now discuss non-life capital generation and the implications for our dividend.

I'm now on slide 4. We saw strong normalize capital generation for the full year of 2019, which included the benefit from positive experience variances in the Netherlands and the higher release of required capital. This forms the basis for a dividend increase to EUR0.31 per share for the full-year 2019 and marks the ninth consecutive year of growing dividends, something which I'm proud of. Let me stress that our ambition of course is to continue the trend of growing our dividend, but provided that our capital generation, our capital position and holding excess cash so allow.

On the next slide, we'll go over our progress in our portfolio of businesses. I'm on slide 5 where we discuss the progress we've made on our portfolio of businesses. You're now hopefully well aware that we have grouped our businesses into three strategic portfolio categories. And I would like to share with you how we are making good progress in driving performance in each of these categories.

So, let me start with the management value category where we focus on optimizing our capital position and reducing expenses. In the Netherlands, we are now at [ph] a reinsurance transaction, reinsuring about a quarter of our longevity exposure. This has reduced the required capital and improved our capital position.Also in the Netherlands, we have closed our own employees defined benefit plan and moved towards defined contribution plan. This switch protects Aegon's capital position and reduces volatility in pension expenses and helps to protect as such our capital position.

Businesses in our drive for growth category are a cornerstone of our growth strategy. And we are therefore pleased to see positive momentum in Life and Accident & Health sales as well as in gross deposits. At the same time, we continue to make significant investments to improve our customer experience and to increase retention rates, in particular in our US work-based solutions business.

Asset Management continues to grow and has had its eighth consecutive year of positive net inflows from external third parties. This growth reflects competitive investment performance together with management's ability to leverage scale and capabilities from general account and our affiliate businesses.

In the UK, we realize the promised GBP60 million in annualized expense savings following the completion of the Cofunds integration. This savings came from decommissioning legacy systems, a site closure and other operational efficiencies. In our scale-up for future category, I would like to point out an interesting development in China. Our insurance joint venture is partnering with a major e-commerce player to offer term life products on its platforms. The first products were launched in October and this has led to over 200,000 policies being sold and $20 million in sales since the end of October, proving the potential of this e-commerce model. And finally, in May 2019 we announced the sale of our 50% stake in our Japanese variable annuity joint ventures. And in January 2020, we closed the transaction and received the proceeds of EUR153 million.

On the following slide, we will discuss gross deposits and net flows in deposit base businesses. As you can see on slide 6, gross deposits were up nearly 40% from the second half of 2018, reaching their highest levels in 3 years. At Aegon Asset Management, external third-party gross inflows increased by 74% to EUR47.5 billion in the second half 2019. This resulted from increased inflows in our joint venture in China and mainly from increased inflows into money market funds after the launch of two new equity funds.

Decrease in US was due in part to strong growth in variable annuities in the US, following product enhancements and our strategic decision to protect our variable annuity distribution franchise by accepting lower returns in the short term as a result of declining interest rate. Pricing actions were however implemented in December and Transamerica closely monitored the path to profitability while maintaining our competitive franchise.

In Europe, gross deposits increased by 12% to EUR13 billion. The major contributor was the Netherlands, as we see continued deposit growth at online bank, Knab, as well as improved sales of new style definition contribution products, so called PPI products. Net outflows were mainly caused by three large contract discontinuances in the large market on the last day of the year in the US retirement plans and outflows in the US annuity businesses. The discontinued contracts were only marginally profitable and the impact to future earnings is therefore limited. In the next slide, we will continue with life and protection sales.

So turning to slide 7, we are encouraged by sales momentum that we are beginning to see Life and Accident & Health. Much of the growth was driven by Europe, where new life sales increased by 25% to EUR173 million, mainly reflecting a pension buyout in the Netherlands. In Asia, we show new life sales increased by 23% to EUR64 million, driven by the successful partnership with the large eCommerce play in China which offsets lower sales in our high net worth business. And with respect to the Coronavirus, we are working hard to provide support to our employees, to our policyholders and our distribution partners in this difficult time.

In terms of our business in China, we have manageable exposure to the most affected areas and we have reinsurance in place. Having said this, sales of the high net worth business in Hong Kong and Singapore, will likely be negatively impacted by reduced activity in the region.

In the Americas, Life sales growth was driven by 17% increase in Brazil and overall, sales of our Life products are increasing. Nevertheless, in the US sales growth is not where we want it to be. We have repriced our Term Life product in the market and we are making our rates more competitive, which points out to future growth while maintaining our pricing requirements.

So, let's move on to Accident & Health. Our Accident & Health business in the Americas increased sales by 14% as a result of on-boarding a short-term disability contract. And finally, in Europe new premium production for Accident & Health, which was up by 44% to EUR23 million, and the main drivers were higher sales in Spain following the launch of a new accidental death and disability product, as well as higher disability sales in the Netherlands.

I would now like to focus on our US business, which has realigned its organization in the first half 2019 into work-based solutions and individual solutions to accelerate growth and enhance customer service. This change will also bring decision-making closer to our customers and drive faster execution over strategic priority (Technical Difficulty).

So, let me start with Workplace Solutions on slide 8. You can see that we are successfully investing to further improve customer service. Customer centricity is a key theme and we are addressing it at multiple levels. In US retirement plans, we made great progress in our touchpoint net promoter scores in 2019.

In our Retirement business, we are pleased to witness a 50% reduction since 2018 in the monthly average number of current plan sponsors that are initiating request for proposals. This points to a better outlook for contract withdrawals. However, we could still see some withdrawals in 2020 due to service issues of the past. Retaining retirement plans is important to us and it's just as important to retain participants. Industry-wide, participants are expected to retire at an accelerating rate and we are focused therefore on retaining those participants into retirement through our advice center.

As you can see on slide 9, individual solutions is making continued progress towards operational excellence. TCS' performance against service level agreements is improving while focus remains on the launch of our first new product on the TCS platform in 2020. Fixed-indexed annuities have been an area of growth. Our fixed-indexed annuity product availability has been extended into California, a major market for Transamerica, and we expect that this will drive growth in 2020 building on the strong momentum in 2019. And in variable annuities, we are also gaining market share. Our market share in the second half of 2019 increased to 3.8%.

And let me now take you through some exciting developments in how we apply technology in our business. On slide 10, I would like to spend just a few moments sharing with you how we continue to invest in technology and how we are realizing cost savings and efficiencies across the Group while at the same time improving customer experience. As shown on the slide, we've had tangible results when it comes to automation. Both on software testing and interactions with our customers, we have successfully deployed technology.

So furthermore, optimizing our Group-wide procurement process has allowed us to leverage scale with negotiating and has led to expense savings of over EUR40 million. And lastly, let me talk about how we are using the cloud to improve efficiency. Increasing the flexibility of 25% of our cloud services allows us to more efficiently allocate computing resources. And with increased flexibility, we don't need to pay for services when we don't need them and we have the ability to scale up at peak times.

So finally, I would like to highlight our responsible investment policy on slide 11. At Aegon, we take our responsibility towards society seriously. As the major investors, we have an opportunity to combine our promise of a securing and healthy financial future for our customers with helping to protect the environment. Our updated responsible investment policy expands the criteria for excluding companies with coal-related activities from our new investments. And therefore from January 1, 2020, new investments in large mining and utility companies that are expanding in coal-related operations have been ceased at Aegon.

And as you can see on the slide, Aegon Asset Management actively engages on ESG topics on behalf of Aegon and its customers. We have stepped up our efforts in 2019 and increased the number of engagements on ESG topics to 564. Furthermore, we continue to grow our ESG and impact investments and now have almost EUR9 billion assets under management in this space.

So let me now conclude. This is my last results presentation after 12 years as CEO of Aegon, and I would like to say a few personal words. I look back with pride on what we have achieved together over the last 12 years. We have successfully managed Aegon through financial crisis that we saw in 2008. We have transformed the Company from a predominantly spread-based business to a Company where fee-based business is our largest source of income. And this has allowed us to strengthen our balance sheet, more than triple our cash flow generation over the period and increase the dividend to our shareholders by more than 50% since 2011.

We've also optimized our portfolio of businesses, so that we can focus all our efforts on growing those businesses where we build scale and where we have attractive growth potential. This transformation has taken place in an environment where interest rates are brought to historical lows as well as with significantly increased regulatory pressures, including the introduction of Solvency II. At the same time, we've implemented and are all living up to clear purpose for Aegon, purpose of helping people secure a lifetime of financial security while balancing the interests of all stakeholders, being our customers, our employees, our shareholders, as well as the communities in which we live.

I do recognize that this transformation has also asked a lot from our investors, with at times significant volatility in our results and a share price performance which despite all our efforts has been disappointing. And I wish that this would have been different. But I am convinced that Aegon today is in a better shape than ever and is well positioned for future growth. And I wish my successor, Lard Friese, all the success in the future.

And finally, I would like to say that I did greatly enjoyed my interactions with you all even if at times some of you have been very critical. So, let me now turn it over to Matt to our financial highlights.

Matt Rider {BIO 20002664 <GO>}

Thanks, Alex, and good morning everyone. Let me start in the usual way by taking you through some of the key numbers on slide 13. Underlying earnings before tax were slightly lower than in the second half of 2018, mainly as a result of one-time items in the Americas. On the back of strong capital generation and management actions, the Group Solvency II ratio has moved back to being above the target range.

Normalized capital generation has been strong in 2019 with a 12% increase over last year. Holding excess cash has ended the year in the middle of the target range, while the gross financial leverage ratio has improved to 28.5%. These factors allow us to raise our final dividend to EUR0.16 per share or EUR0.31 for the full-year 2019, which is an increase of 7% over the full-year 2018 dividend. I will discuss underlying earnings in more detail on the following slide.

As you can see on slide 14, our underlying earnings have decreased by 5% compared with the same period last year. This can be largely attributed to one-time items in the US Life business. The main reason for this is the negative impact on intangibles from lower interest rates, tighter credit spreads and investment portfolio updates. Next to that a large block of business that reached the end of its 20-year level term period exhibited worse than expected persistency although persistency in general was in line with expectations.

You will see that the expenses for holdings showed an increase, mainly as a result of a change in the recognition of interest expenses in our financial statements. Interest expenses for the Tier II securities issued in October 2019 are reported through the income statement while interest expenses for the grandfathered Tier 1 perpetual capital securities redeemed last December were recognized directly through equity. Combined this led to an unfavorable impact on underlying earnings despite the fact that the replacement resulted in about EUR15 million lower coupon payments on an annualized basis.

Our businesses outside of the Americas all showed improved earnings in the second half. For the Netherlands, this can be mainly attributed to lower expenses in Life. Non-Life also reported an increase in earnings, including a one-time reserve release. Many [ph] of our drive for growth and scale-up for the future businesses showed positive developments, which shows that our strategy is paying off. For example, in the UK we are seeing earnings growth in our digital solutions business. Furthermore, the services business in the Netherlands showed improved performance and in Spain our joint ventures continued their positive momentum.

Now, let's turn to slide 15 and I'll explain the composition of net income. Net income totaled EUR910 million for the second half of 2019. The gain from fair value items amounted to EUR168 million and was mainly driven by real estate valuation updates in the US and the Netherlands, reflecting strong property markets.

For the US, this includes the revaluation of the Transamerica Pyramid building on the back of the ongoing sales process. In early February, we signed a letter of intent to sell this iconic property. This allows us to diversify our investment portfolio while Transamerica will retain the naming and branding rights of this San Francisco landmark.

For the Netherlands, the fair value items included gains on interest rate hedges and the guarantee provision and totaled EUR132 million. For the guarantee provision, the favorable impact of market movements and data updates have more than offset the unfavorable impact of credit spread movements. The change in the liability adequacy test deficit had a negative impact of EUR90 million on the results, with favorable spread movements being more than offset by the impact of interest rate movements.

Fair value losses in the UK, mainly related to inflation hedges in place to protect the Solvency II position. Realized gains totaled EUR131 million in the last six months of 2019, mostly from the Americas. They resulted from bond calls and prepayments, gains on mortgage loans and day-to-day trading activity. Other charges amounted to EUR188 million and included a number of different items, as the slide highlights.

Model changes and assumption updates in the US and in the Netherlands totaled EUR132 million. This included the negative impact of expense assumption updates in both the US and the Netherlands. In addition, for the Netherlands there was a model enhancement for the defined benefit pension book. These items were partly offset by the favorable impact of assumption changes on longevity in the Netherlands. This is due to taking into account another year of experience data in our review process. And because there is a time lag, as you may recall, it takes into account the worsening of mortality rates in 2017 and early 2018.

Restructuring expenses amounted to EUR124 million. These related primarily to the UK for the Atos administration partnership and Cofunds integration. The other main contributor is the Netherlands where restructuring expenses related mostly to the transfer of the administration of certain parts of the defined benefit book to TKP and the restructuring of Aegon Bank.

Other charges also include the project related costs associated with the implementation of IFRS 9 and IFRS 17 across the Group, which amounted to EUR50 million. Offsetting these charges, was an income item of EUR118 million, primarily related to a provision as a result of moving from a defined benefit to a defined contribution for our own employees in the Netherlands.

Let us now switch focus and move to capital. On slide 16, I'd like to make a few general remarks on our Solvency II position and capital generation going forward. As you know, 2019 was a turbulent year for the financial markets. Interest rates were volatile and end of the year 77 basis points down on the US 10-year treasury and about 70 basis down on the long end in Europe. Since the end of the year, rates have moved about 25 basis points to 30 basis points lower.

Our solvency ratio has proven to be resilient in withstanding these interest rate movements. However, in Europe there is expected to be a negative impact on future capital generation with the lower rates leading to an increasing gap with the ultimate forward rate. Similarly, in the US reinvestment yields against generally fixed policyholder guarantees also put pressure on future capital generation. Spreads have also moved sharply throughout 2019. Mortgage spreads in the Netherlands have returned to normal levels, as we had expected. However, the EIOPA volatility adjuster dropped by 17 basis points during 2019 to 7 basis points.

To offset the negative impact of spread movements and the changes to our internal model in the first half of 2019, we have undertaken several management actions in the Netherlands, including longevity reinsurance and asset derisking. In December, we announced a successful longevity reinsurance deal with Canada Life Reinsurance relating to a large block of our defined benefit pension book. In addition, we have lowered the risk profile of our asset portfolio backing the insurance liabilities. Consequently, our required capital has reduced significantly improving the Solvency II ratio. Furthermore, we continue to focus on reducing expenses across our main markets, which should support capital generation going forward.

My last remark is on the impact of new business. As we announced a year ago, we have embarked on a growth journey. This is to promote sustainably growing capital generation in the future. Consequentially, we expect new business strain to increase compared to 2019, aimed at increasing capital generation in the long term.

Our goal remains to sustainably grow the dividend on the back of growing capital generation while maintaining a strong capital position and sufficient holding excess cash. Our future dividend decisions are not just based on point-in-time analyses but also take into account our outlook for the future. Of course, we will also keep abreast with regulatory developments.

Let's then turn now turn to the numbers on capital. On slide 17, you can see that the Solvency II ratio for the Group has increased to 201%. This brings the ratio above the top end of the target range of 200%. Growth in own funds was a result of strong capital generation net of new business strain and holding expenses and the positive impact from markets, driven by tighter mortgage spreads. These more than offset the impact from returning capital to our shareholders and the impact of model and assumption changes.

The increase in SCR by EUR200 million was mainly driven by markets, as lower interest rates led to an increase of overall capital requirements. Model and assumption update changes had on balance a negative impact of 5 percentage points on the Group's solvency ratio. One main driver related to updates of expense assumptions in the US, in the UK and in the Netherlands, which led to lower owned funds.

Furthermore, we have lowered our LAC-DT factor from 75% to 65%, which increased the SCR, that is we have prudently assumed our loss absorbing capacity of deferred taxes will be somewhat lower in light of lower interest rates. The negative impact from a model enhancement related to our defined benefit pension book was offset by a favorable assumption update on longevity.

The one-time items include management actions such as the longevity reinsurance transaction, asset derisking in the Netherlands and the move from a defined benefit to a defined contribution plan for our own employees also in the Netherlands. The category also includes an adverse impact because of lower diversification benefits at the overall Group level, partly as a result of market movements and increased interest rate hedging.

The next slide discusses the capital positions of the main units. Solvency ratios for all of our main units are strong and above the bottom end of their respective target ranges. In the US, the RBC ratio remained stable during the second half and well above the bottom end of the target range of 350%. The positive impacts from capital generation and management actions, such as the merger of two of our legal entities in the US, were offset by statutory expense assumption changes and dividend payments by the US regulated entities to the US holding company. These dividends to the US holding company were in part used to make a $250 million voluntary contribution to the own employee pension plan.

In the Netherlands, the Solvency II ratio recovered from 152% to 171%. This increase was mainly driven by management actions, strong normalized capital generation and the anticipated reduction in mortgage spreads, which came down by 51 basis points in the second half of 2019. This decrease fully offset the increase witnessed in the first half of 2019. The EIOPA volatility adjuster had a negative impact on the ratio, as it came down further to 7 basis points. Please let me remind you that although the Dutch solvency ratio has improved markedly, it remains very sensitive to mortgage spread and EIOPA volatility adjuster movements, especially when they move in opposite directions as we observed in the first half of 2019.

The other market movements in the Netherlands had a negative impact, sovereign spreads widened lowering the market value of assets. Furthermore, corporate bond spreads tightened increasing the own employee pension plan liability. This is based on a tailored methodology which is sensitive to spread movements for long duration bonds and has resulted in a 34-basis point decline in the discount rate. This had an adverse impact of 5 percentage points on the ratio.

Lastly, model and assumption updates had a negative impact on the Dutch ratio. In the UK, the Solvency II ratio decreased 8 percentage points to 157%. This was due to the remittance paid to the Group in November and a negative impact from assumption updates, primarily related to expense assumptions. Notwithstanding the decrease, the UK remains comfortably above the bottom end of the target range.

Let me now take you to slide 19 which shows the capital generation and remittance to the Group for all regions. Normalized capital generation for the full-year 2019 was strong, with our units reporting nearly EUR1.9 billion of normalized capital generation for holding expenses. For the Netherlands, capital generation was significant albeit in part due to positive underwriting experience variances, which may or may not reoccur. In 2019, the Netherlands will not pay a dividend to the Group in light of its Solvency II position at the first half. However, the Solvency II ratio of the Netherlands returned to the target range at the end of the year, reflecting mortgage spread tightening and the longevity reinsurance transaction. We were thus able to remit EUR100 million to the Group in February of this year.

While we are pleased with this development, we remind you that our capital position in the Netherlands remain sensitive to spread movements. Overall, normalized capital generation and gross remittances from the various units comfortably covered the envisioned 2019 dividend of EUR0.31 per share or approximately EUR650 million in cash.

The next slide expands on remittances in the second half and holding excess cash. At the end of the second half of 2019, holding excess cash amounted to EUR1.2 billion, which sits within our target range of EUR1 billion to EUR1.5 billion. Gross remittances to the holding amounted to EUR595 million in the second half of 2019. Please note that these exclude the proceeds received from the sale of our stake in the joint ventures with Sony Life in Japan in January 2020.

Capital injections of EUR254 million primarily related to investments in business growth and earn-out payments in Europe. In Spain, EUR115 million of earn-outs were paid to Santander related to the successful performance of the joint venture. Furthermore, Aegon Spain received EUR75 million of capital injections to ensure that the Solvency II ratios for all of the legal entities remained in the target zone, as transitionals and matching adjustments are no longer used. Other capital injections totaled EUR63 million and were mainly to fund business growth in the bank in the Netherlands and Aegon's insurance joint venture in China.

In the second half of 2019, EUR456 million of holding excess cash was deployed for the cash portion of the interim 2019 dividend and the share buybacks aimed to prevent the dilutive effects from the 2018 final and 2019 interim stock dividends.

For funding and operating expenses, the total cash-out amounted to EUR165 million. The remaining decrease of EUR156 million primarily relates to EUR140 million in debt reduction as well as the expenses associated with the transactions. This includes the financial leverage ratio to 28.5%, close to the middle of our 26% to 30% target range.

Let me now take you to the next slide. As announced last year when presenting our medium-term targets for 2019 to 2021, we will give you guidance on remittances for the year. For 2020, we aim for gross remittances of EUR1.4 billion, which is in line with the remittances in 2019. These gross remittances will support our annual dividends to shareholders. In addition, the remittances will be used to invest in growth, finance holding, funding and operating expenses, and leave sufficient financial flexibility for add-on acquisitions, further deleveraging our other corporate purposes.

Please note that the EUR1.4 billion includes the proceeds of the sale of our stake in the Japanese joint ventures. This brings me to my next and final slide.

Before I conclude my presentation, let me summarize the second half of 2019. We've again made good progress in driving efficiencies and allocating capital to those activities with the best growth prospects. We have also improved our capital position by taking management actions where needed and have increased normalized capital generation. As such, we remain committed to delivering on our capital generation target and to drive value for shareholders.

With that, I'd like to conclude my presentation. Alex and I are now happy to take your questions.

Questions And Answers

A - Matt Rider {BIO 20002664 <GO>}

Thank you very much. (Operator Instructions). Thank you. We'll take our first question from Mr. Farooq Hanif, Credit Suisse. Please go ahead, sir. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Good morning. Firstly on capital generation, so the slide where you show pluses and minuses, can you just give a clearer message on where that EUR1.6 million of capital generation goes in 2020 and onwards? And could you also give an indication of how much you consider to be sort of a one-off in that, let's say, from -- for example, from the positive experience variances?

Second question, in the Netherlands you've taken some actions through longevity reinsurance, but you also signaled that there were other levers that you could pull. I was wondering in light of uncertainty of the Solvency II review what further levers you (Technical Difficulty).

A - Alex Wynaendts {BIO 1821092 <GO>}

One plan to get an area in a small and medium market where we have been successful. So, this is in short what I can say on the retirement business. This has a full -- and the management -- USA's full attention. And we feel that we are turning the corner, but this contract continues [ph] to switch, again from a financial point of view will not have a huge impact. But it's all about retaining our customers (Technical Difficulty) advice center and we have now reached around EUR5 billion of assets, of individuals that have taken the assets out of the plan when they retire and kept them with us in variable annuities, mutual funds and any other company and that's a 36% increase year-on-year. So, that business is steadily growing and that's very much in line with our strategy.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just return on one thing? On the capital actions in the Netherlands, do you actually have something underway at the moment to look at longevity or is this just a theoretical lever for now?

A - Matt Rider {BIO 20002664 <GO>}

No, we're always looking at management actions, always looking at them.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much.

Q - Unidentified Participant

Thank you. Hi, good morning, Alex, good morning, Matt. Just few questions, so first of all in terms of capital generation for the Netherlands, I mean if I remember correctly, in 2016 this number used to be about EUR250 million and now it's EUR470 million. At the same time, interest rates have gone down quite a lot. So I think -- I thought that would be negative for this EUR250 million in 2016 but now it has doubled. So, what is going on there? That would be the first one.

Secondly is, can we get some color on how should we think about Dutch capital at the moment given that interest rates have come down and given that you have released some capital from Netherlands as well? I know it's not ideal to look on at daily basis for any business on capital, but still like year-to-date drop in interest rates have been relevant.

And the last question would be on changes in US Capital. I mean some of your peers are now talking about new US capital regime. They -- some of them have started to adopt it as from full-year 2019 results or at least talking about it. What are your plans for that? What should be the impact, if you could just remind us, on that, it'd be great. Thank you.

A - Matt Rider {BIO 20002664 <GO>}

Good morning. So maybe back in 2016, as you said, we were looking at EUR250 million normalized capital generation in the Netherlands, but frankly as a consequence of some of the management actions that we had previously taken in fact to re-risk a bit the portfolio, then you start to see that come through. And you're also seeing in the quarter -- or in the second half you're seeing some positive experience variances, which contributed something over EUR70 million to the -- to normalized capital generation.

Now just to sort of refresh your memory, I think in December or so we had guided to about EUR350 million of normalized capital generation and now we see the impact of lower interest rates that I think we've previously disclosed that basically for every 1 basis point of interest rate reduction you would get EUR1 million lower capital generation. That will become binding [ph].

But I think looking at the -- I would say part of the experience variances that we saw in the second half of the year would be -- part of it could be repeated, part of that could not, we don't really know on that one. We did see positive mortality and morbidity experience. We saw some contract boundary effects on, let's say, pension contract renewals, so that was positive. We also saw some positive impact on the valuation of Dutch residential mortgages as contracts hit their interest rate reset periods and then normally we wouldn't value at only up to the interest rate reset date, but when they do reset and we retain it then we got some positive value out of that. So the EUR350 million again was at the -- was shown in the -- I think in December.

Q - Unidentified Participant

Yeah, thank you.

A - Matt Rider {BIO 20002664 <GO>}

Okay. Looking at Dutch capital and how -- and interest rates being down, I think that we've demonstrated in the Dutch book that we've been pretty resilient to interest rate movements on the capital position itself. Yes, it does affect ongoing normal -- normalized capital generation, but on the ratio itself we've done a pretty good job in managing that. And I think you see that in some of the sensitivities that we provide on Dutch capital. So, that's not a particular concern on the -- let's say, on the ratio itself. But then like I said, it does -- to the extent that we have lower interest rates, it does mean lower capital generation.

You mentioned the changes in -- some other companies have announced changes to the US capital regime, you're probably referring to the VA framework in the US, which indeed our US business has early-adopted as from 2019. So, those are fully reflected in our -- say, the impact of that is fully reflected in our figures. But to be blunt about it, we had already been mimicking the new framework for some time by holding voluntary reserves. So, the impact on our capital ratios in the US were really kind of small as a consequence of doing that early adoption.

Q - Unidentified Participant

So just to be a clear on that last US capital thing, so is it fair to say that there is no more regulatory changes expected or known regulatory changes which are (Technical Difficulty)?

A - Matt Rider {BIO 20002664 <GO>}

(Technical Difficulty) on the RBC ratio in the US range, but at this point it seems like that has pushed off and it may never happen. So, I would say cautiously optimistic that we don't see any changes on the horizon, the capital framework there.

Q - Unidentified Participant

That's very clear. Thank you, Matt.

Operator

Thank you. Our next question is from Mr. Johnny Vo from Goldman Sachs.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah, good morning, just a couple of questions. Just the first question, I know that you've moved the dividend up by 7% but I guess the question is really, do you think that is prudent to do given the fact that if I look at your gross remittances there is a number of one-offs in there, you strip out the one-offs and you minus your holding company, then the dividend -- given where the Netherlands is as well in terms of solvency ratio and the mark-to-market of that, it doesn't look like the coverage is going to be great. So can you sort of give us a view of how you came to the decision of the 7% growth in dividend?

Also, it's apparent -- and related to that I guess is that the Group continues to support a number of businesses, the Spanish business and growth in future scale-up businesses. Again coming back to that, is the group in a position to really continue to do that given issues in a number of its subsidiaries? And I thought you've sort of touched on this, but could you give us a mark-to-market of where you think -- because you know the volatility of the Dutch business itself is, as you said, very volatile, so could you give us a view of where that solvency is mark-to-market? Thank you.

A - Matt Rider {BIO 20002664 <GO>}

Yes, so maybe on the dividend, but really the discussion was more around -- for the 2019 normalized capital generation, you saw that we really outperformed where we thought we were going to be. So the question was sort of we generated the capital, so let's maintain the EUR0.01 share increase as frankly we had planned to do in light of the capital that we have -- that we can safely return to shareholders.

But as I had mentioned in my presentation, the counter side of that is, do you see headwinds on the horizon, and we see lower interest rate, so there -- as I think I mentioned in my presentation, to the extent that you have kind of a lower for longer scenario, that would start to be binding. So, we not only look at the solvency ratio, the normalized capital generation, but we do look at the -- sort of the outlook for capital generation going forward.

So for the final year 2019 dividend, we settled on increasing the full-year dividend by EUR0.02 a share. But I would remind you that we look at all of these things at the half-year and at the full-year we take into account a variety of metrics. So, I'm going to -- I think I'll just leave it there.

You mentioned that the Group has been supporting some businesses and are we in a position to do so? The short answer is, yes. I mean we do get enough remittances so that we can support both, the dividends to shareholders, holding expenses and interest on debt and so on, but also we've built some financial flexibility and we do employ that in kind of a rigorous way. So for example, in the Spanish business where we are no longer applying transitional measures and the matching adjustments, we did inject EUR75 million to basically maintain the solvency of Aegon Espana, which is the legal entity that contains our own business as well as some of the joint venture expenses.

So we did inject EUR75 million, but then we took the action to restructure the business to hang the joint venture legal entities underneath Aegon Espana. So, we would expect to get that EUR75 million immediately back in the first half of the year. So, that I would say -- that's a short-term thing. That's the reason why we have excess cash and financial flexibility in the holding company.

I see that you -- there are other areas where we were -- where we are injecting capital to fund future growth, but I would remind you that we have done -- for example, in Japan, we have historically put in EUR20 million a year into the Japanese joint venture, and this was the reason why we got out of it. So, we successfully closed that transaction in January. We routinely review these businesses, do we still want to continue to support them, and to the extent that they are going well, then we are perfectly happy to inject cash. Good example of that, China, beautiful business now in the life insurance joint venture in China, we injected some capital there to give ourselves the opportunity to participate in pension reform there. So that's --- I call that good capital, that's good capital to invest, and we do have financial flexibility to be able to do that.

Now, in terms of the volatility of the Dutch Solvency, yes, it is, we are subject to credit spread movements, we are -- especially in mortgage spreads, we are subject to EIOPA, but we -- I think with the -- also we are generating a good amount, as was previously said, a significantly higher amount than we had (Technical Difficulty) generated back in 2016.

One thing I would come back on though with respect to the Dutch capital generation, again we'd talked about a guidance of EUR350 million back in December and we do have these impacts, but one important one is as a consequence of the reinsurance transaction in some asset derisking, we would expect that number to start to come down. So, that's going to come down by about EUR50 million as a consequence of those management actions, which we intentionally took the upfront capital and returned capital to shareholders.

So, I think we are -- again coming back to your original question on dividends, I think we're in a good place to be able to increase the dividend this year, but we look at the entire environment, the solvency ratio, capital generation, excess cash and holding when we take these dividend decisions going forward. So, we never make any guarantees on dividend trajectory.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay, thank you.

Operator

Thank you very much. Next question is from Mr. Fulin Liang from Morgan Stanley.

Q - Fulin Liang {BIO 21126177 <GO>}

Hello? Thank you for taking my questions. I have two questions, actually both of them on the commercial side because obviously you've done a lot to fix the balance sheet and the solvency issue, but I think I'd like to hear a bit more on the -- what you've done on the commercial side. Two particular questions, so the first one is on slide 16 you mentioned that you will invest in new business a bit more. I just wonder, could you give us more color what exactly is the investment, because compared to the peers your investment into the new business is actually already very high. So, I wonder actually what incremental kind of investment could bring you kind of more benefits in the future. What I meant is, for example, are you thinking of -- for example, increase the compensation to the broker to launch new product, to launch new promotion or anything like that, more color would be good. So, that's the first question.

And then the second one is, I need kind of your help on understanding, because in one hand on the same slide 16 you said expense saving will increase your normalized capital generation, however on the other hand we saw that you revised your expense assumption, which is a negative impact to your solvency. So, I actually wonder whether on the expense front, are you actually saving expense or are you actually -- you found out your expense assumption is actually lower than what's happening? Some clarification on that would be good. Thank you.

A - Alex Wynaendts {BIO 1821092 <GO>}

Let me take this question. So what we're saying is that we want to rebuild the commercial momentum and I will assure you, it's not about being higher commissions or higher fees, it's about selling more business. So when we sell more business, we need to allocate the amount of new business strain, and in particular it's visible in the (Technical Difficulty) it's about getting more scale. So, it's really about new business strain in terms of holding capital for the product, in particular in the US. And keep in mind, you got a multiply of 4 to 5 over a period of time, that is somewhere between 10 years and 50 [ph] years depending on the products. I think that answers your question hopefully (Multiple Speakers).

Q - Fulin Liang {BIO 21126177 <GO>}

Sorry, can I have a follow-up question? When you say you sell more new business, how did you -- how do you plan to achieve that? Did you -- actually do imply that actually in the past few months or year, the reason that your commercial momentum decreased is because you intentionally control the cells, now you intend not to control the cells? Just a bit more color would be -- how do you sell more new business?

A - Alex Wynaendts {BIO 1821092 <GO>}

I will assure you that we did not intentionally control the sales. So, we invest in more wholesalers, for example, more people that are wholesaling our product to our distributors. That's a good example. So, we invest in more wholesalers. We have invested in more people, I mentioned that earlier, in the workplace with more people that are focusing on sales on the large case team [ph]. I mentioned that more people that are going to service this customer, so what we invest in is the capability to sell more and that's why we expect to sell more.

As you know, we have a good franchise in the IUL with our WFG [ph] brokerage. What we're trying to do is to get a higher participation. Now we are in the 55%, so 55% of the WFG -- a broker network of around 40,000 salespeople in the US are trained to make our products. Now, we hope we can get that 60%. So, there's a lot of ways that we can try -- and we'd be working hard on that -- on improving our sales capability. And in this context, one important item also is that we have -- are going -- we'll be replacing -- because a person has left, we'll be replacing the Head of our Individual Solutions business because we think that we need to be more successful in sales. So, the biggest part of the capital that is being used, by far the biggest part, is to hold more capital for the products that we sell.

And in terms of expenses, I think the way of looking at it, we are looking on an ongoing basis at expense reductions, at increasing efficiency. As you know, we've done a big process in the US by looking at outsourcing a big chunk of our back offices and legacy systems in the US to TCS. We have announced a similar transaction in the UK. And we will also be looking at all our other businesses, including the Netherlands, at similar actions that allow us not only to reduce expenses but more importantly for our -- for capital generation is variabilized [ph] expenses, because if you have businesses which are effectively in run-off like in Netherlands our pension business and our individual life business which is the old unit-linked business which are in runoff, the number of policies decline -- and it is of big importance that you not only reduce expenses but that you're able to variabilize these expenses. So, you will see a lot of management actions and these actions all have positive impact on capital generation of course but also on the overall capital position.

Q - Fulin Liang {BIO 21126177 <GO>}

Sorry, just a follow-up on that one. If you are looking for on an ongoing basis and decreasing like, say, unit expense, and why would you actually revise your model which actually seems to have a negative impact?

A - Alex Wynaendts {BIO 1821092 <GO>}

When you reduce expenses that has a positive impact on capital generation and on the capital position because you reduce expenses, and therefore you have more revenues and you have to variabilize expenses, which is also a very important part of the modeling.

A - Matt Rider {BIO 20002664 <GO>}

Maybe I maybe I answer your question directly here. So, what we had seen with the -- with changes to expense assumptions in both the US, the UK and the Netherlands is an annual expense study that we do to ascertain how much expenses are allocated, for example, to enforce business which goes through a lot of the solvency type models as well as new business. What we talk about in terms of capital generation and the effects of expense savings, these are things that (Technical Difficulty).

Q - Fulin Liang {BIO 21126177 <GO>}

Okay, thank you.

Operator

Thank you very much. Next question is from Mike [ph] Holmes from Societe Generale. Please go ahead, sir.

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah, Nick Holmes actually. Thank you very much. Couple of questions; looking at the geographies you cover, I wondered is there room for some more disposals, I was thinking maybe Eastern Europe, one of your peers has disposed there, is that something that you might think of there? And secondly with Asia, you are a little bit underweight, and I wondered -- I mean China is going quite well. But is the opportunity to add more there? Thank you very much.

A - Alex Wynaendts {BIO 1821092 <GO>}

Nick, I'll take this question, but I do think it's probably a question that you should be asking again to my successor. But let me say my perspective here is that in Central and Eastern Europe we have a couple of key countries. Hungary, as you know, has been a very consistent, stable and reliable provider of dividends. Turkey actually doing extremely well despite what you could see from the outside. And it's true that if you look at our business in Poland in particular, that is a business where I believe a strategic review will be looked at because the market has changed a lot and the conditions there have changed.

In terms of Asia, what I would like to say is more about where we are today. Yes, we are not present in every country but we have market leadership positions in those business in which we are in. Our high net worth individual business is very clearly a market leader, a successful business. As you know, it pays a dividend, it also generates a dividend to the holding. It actually paid the dividend 2 years ago, a significant dividend too, and that's a leading position. We are very happy with our joint venture in China. We have actually two, one on the asset management side, paying a dividend also, very successful and the joint venture on the Life side equally successful. That's a joint venture that does require very limited capital, as Matt just mentioned, a one-off capital injection so, that we could qualify for broadening of scope of our business. But that's a business that is self sufficient growing very well. So, we are focused in very specific areas.

And where we couldn't make our business grow to the extent we wanted it to grow like Japan, we have taken decision to get out. I think India is the remaining country where we are and India is a place where we have taken a number of steps to be ahead of the curve in terms of digital. It's a company that's entirely digital. It's a company that sells through a number of e-commerce players, very similar to what we have seen in China. We hope that the same is actually going to happen in India where actually we jump the -- I would say, the curve and engage ourselves in digital-only business and the market therefore is large enough. But I would say, that is to be reviewed in a couple of years by certainly by my successor and management team.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay, very clear. Thank you very much.

Operator

Thank you very much. The next question we have is from Mr. David Motemaden from Evercore. Please go ahead, sir. Your line is open.

Q - David Motemaden {BIO 18818634 <GO>}

Hi, thanks, good morning. Just question on portfolio optimization in the US. So, there have been a few recent deals, most recently Voya disposed of its universe UL book, individual life book, in the United States at a pretty decent price and it seems like there is increasing activity around just run-off block deals in the US. I know you guys have already done a decent amount of optimization in the past, but I guess just wondering your thoughts about the developments in the market and if you guys see an opportunity to unlock value there.

Second, just a question on the retirement business in the US. So just looking at the earnings per head of about $40, that's I think below the -- 5% to 10% below the $52 per head target or outlook you guys had given previously. Just wondering, should we be thinking about that $40 per head as a good baseline level? And then just relatedly, just wondering why that has been -- why that has fallen so much given the solid performance in markets? Is it more just investments have ramped up or has the competitive environment picked up materially that have caused that weakness?

A - Alex Wynaendts {BIO 1821092 <GO>}

Right. On portfolio optimization, I think you are well aware that we have -- and we continue to look at all the opportunities we have to optimize capital and returns have been for us [ph], we have different parts of the portfolio that could be subject to this review, I can assure you that we engage with a lot of parties and we make sure that we do this in a way that we always look after the interest of our shareholders here. We've done quite a number of transactions. So, I think that we are able and prepared to make those transactions. And our focus of course is to move towards a capital-light strategy that we want to further strengthen, which gets us to our retirement business. So continuing to look at it, but I'm not sure that all conditions are always as positive because you see some transactions but it's always important to look at each individual book of business that are all very, very different.

In terms of the margin on -- so participant, so you're right, it is $40. It is below the guidance we have given of $50 -- $52 at the end of 2018. Well, there are two things that you've really seen, in the meantime competition and competitive pressures on margins continues. This is an area where we see that actually for very large cases margins are pretty close to zero. You also see that a number of competitors in the market are actually actively driving margins down on the accumulation phase and are expecting to see -- you see the profitability come back at the data accumulation phase, which is very much a strategy that we follow also.

It -- for us it's important that we get the customers in, so we get the plan participants and we try to grow profitability, and I think I've mentioned that the number of times, by not only putting more services into the accumulation phase through managed advice, which is something we do very actively, offering that as a feature in the buildup phase, but also trying to capture all these rollovers of all the people, the baby boomers that are retiring and as a combination we are expecting to see profitability (Technical Difficulty) bringing in additional service for managed advice. We are successfully actually capturing roll-off deposit to our advice center [ph], I mentioned the $5 billion assets a few -- some minutes ago and therefore, we expect the profitability to go back to a higher level. But it is a very competitive market and we see this in the US, but we see that in the Netherlands, we see that in the UK, it's part of the environment in which we operate in and we are well aware of that.

Q - David Motemaden {BIO 18818634 <GO>}

Got it, thanks. And maybe if I can just sneak one in for Matt just on low rates in the US, it didn't look like there was really any material impact on cash flow testing on a stat basis at year-end 2019, but just wondering if you could just give me a sense for the puts and takes and also how you think -- how the business is positioned for cash flow testing for the next year or two if rates remain at these levels?

A - Matt Rider {BIO 20002664 <GO>}

So maybe on cash flow testing, results of -- cash flow testing passed all the legal entities within the US at year-end. So despite the low interest rates, we're not seeing and fighting there. Rates would have to go down significantly more before anything we'd be biting [ph] on the cash flow testing side. Where it does start to get you a little bit is on capital generation going forward and that's where you see that we reinvest about $4 billion to $5 billion per year in reinvestment yields. So to the extent that you get low interest rates, then you see those impacts coming through on capital generation side.

Q - David Motemaden {BIO 18818634 <GO>}

Got it. Thanks for the answers.

Operator

Thank you. Our next question is from Robin van den Broek from Mediobanca. Please go ahead, sir.

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

Yes, good morning everybody. My first question is mostly about the timing of these model changes, because -- especially in the Netherlands this is the second time in a row where there is basically adversity for model changes and now we got the story that (inaudible) you move to 65% from 75%, which is increasing prudency in the model. But to what extent is this is an own choice because it feels a little bit like the regulator is not fully comfortable with your capital position and that's why these surprises actually keep on hitting the market. That's the first question.

Second question is a little bit related to Johnny's question on free cash flow and the dividend sustainability. I mean I think last year you were trying to convey a message where the (Technical Difficulty) got last year on the back of that. Thirdly, on US, I think there was some news flow that your Transamerica Pyramid Tower is close to a full sale. I guess on IFRS we shouldn't expect anything but maybe there is some relief coming on the capital side because your statutory capital position is probably more at a -- the level when you acquired that building in 1099, so probably a sizable RBC ratio tailwind may be coming from that side to offset the low rate dynamics in the US.

And lastly on EIOPA, we've noticed that it seems that they're considering actively lowering the risk margin is some offset to implement changes to the UFR, I think my read on that will be that, that could be particularly positive for the Dutch insurance companies given the sizable risk margin there versus other geographies in Europe. Could you comment a little bit on how that part of the regulatory puzzle is -- has changed over the last few months and how you feel about that? Thank you.

A - Matt Rider {BIO 20002664 <GO>}

Good morning, Robin. Let me take your items in turn here. So first, the impact on the -- let's say, the timing of model changes, I think you probably know that in the US we typically do our model updates in the first half of the year, so the second quarter, and those updates have already been rolled through the first half of the year although there was some residual work that needed to be done on expense assumptions and that is reflected in the second half of the year results.

Now for the rest of the world, primarily the Solvency II (Technical Difficulty) from 75 to 65. I want to make this very clear. This was our own choice and this is part of the consequence of mainly the low interest rate environment. We thought that it would be prudent to do there. Yes, it does increase the SCR. Yes, it does, by the way, increase the release of SCR going forward, but we thought that, that was the prudent thing to do.

With respect to free cash flow and dividend sustainability, you are right, so what we are telegraphing here is that we are not changing our 3-year normalized capital generation guidance nor are we changing our 45% to 55% payout ratio. Yes, we were a little bit low on that this year, but I wouldn't increase the dividend to get it into the range as a consequence of that. We look at a variety of metrics here.

In terms of potentially disappointing, we don't want to disappoint the market but we do want to guide the market in terms of where we think our normalized capital generation is going. That's why in the presentation we gave you some indications of the effects of interest rates and so on, on where normalized capital generation could go in the future. And I would say that also we would actually like to see some additional new business strain. I'd like to see even better commercial momentum out of those products where we have to invest capital into the products to be able to get longer-term normalized capital generation growth. So as I said, we want to give you the building blocks to get to a dividend patch. But we also want to be very upfront on those things where we see tailwinds and headwinds and you can see from that slide in the deck, we're trying to be very open about this.

On the -- so on the Transamerica Pyramid, yes, there was actually a bit of a leak in this. When we are in an actual -- we are in a sales process, I think that was very well publicized. We do have a deal on a table for EUR711 million and that is expected to close in the -- I think it's in the first quarter of this year, lower [ph] than where we had it on our IFRS books even prior to the revaluation of the real estate.

So, we'll get a capital benefit in the US and we'll also get some release of required capital because we're holding required capital against that real estate asset, and it allows us to diversify away from one giant property into a mix of other assets. But we haven't -- but we'll see how that comes out in terms of how we use that capital within the US business.

In terms of the EIOPA activity, yeah, there is some rumor that EIOPA might be willing to do something with the risk margin which would in fact be a positive thing. But I would say that if they did something on the risk margin, it would probably mean something that they're going to take away somewhere else. So for example, both EIOPA and the Dutch Central Bank have telegraphed their desired outcome to be no increase or decrease of capital within the entire industry. If there was a move toward a longer last liquid point or some kind of a different extrapolation to the UFR over time, then you would need something along the lines of a risk margin of reduction or a giant increase in the volatility adjuster to be able to offset those kind of things.

But the state of play is very open right now. EIOPA at this moment needs to come with their official one recommendation and then we'll go into a testing phase to see how that works out for all the insurance companies. There is quite an active lobby. I think you're probably aware that the CFO forum, the CRO forum, (inaudible) insurance Europe are all kind of aligned around these themes of no major changes please at this moment in time. We'll see to what extent that gets baked into the ultimate EIOPA proposal.

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

Okay, thank you. Maybe on the capital generation, I mean the fact that you keep your target range stable, should we assume that the 2019 delivery is a buffer and basically lower that for future years to get to your target range, is that the most sensible thing to do or is it just -- should we just see the outperformance on 2019 as a sort of a one-off basically?

A - Matt Rider {BIO 20002664 <GO>}

Well, we've seen normalized capital generation go a bit up and down. So we're just going to stay with the 3-year guidance at this point, based on what we see now, also recognizing that there could be pluses and minuses as a consequence of rate movements or additional investments in new business and the like.

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

Okay. And then the Pyramid sale, no indication of what the RBC ratio you could see from that?

A - Matt Rider {BIO 20002664 <GO>}

No, we're not going to talk about that on the call.

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

Okay, thanks.

Operator

Thank you very much. We'll take our next question from Albert Ploegh from ING Bank.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning. Two sets of questions. One is to come back to also Robin's question on the EIOPA review but more in context of the Dutch mortgages, where -- which is the key driver of the volatility on the Dutch ratio obviously. Based on the industry response and also the response from the Dutch regulator, do you have any more conviction or hope that maybe the Dutch mortgages will be treated potentially a bit more favorably under the (inaudible) review? That was the first question.

The second question is to come back to the expense assumption updates and in relation to that of course the prolonged low rate environment, how should I see the upcoming review of the main macro assumptions? And obviously -- so (inaudible) that comes to mind is the 4.25% 10-year treasury, I'm very well aware of the long grading period that Aegon is using. But can you maybe frame that or give some color on sensitivity in case you would -- loaded by 50 basis points because I (Technical Difficulty)?

A - Matt Rider {BIO 20002664 <GO>}

(Technical Difficulty) just to be able to recognize them, but that's not a complete solution to the problem. I think the Dutch Central Bank has been open to how do we tame the volatility, it's going to be very difficult to do it I think on the required capital side. There might be some kind of an opportunity on the valuation side if the mortgages were state -- or individual country regulators have more control over that. But that's still under discussion. It's been an important point in the (inaudible) the Dutch Insurance Association here. But that's early -- that's very much early days.

With regard to interest rate assumption updates, right now so we're talking first of all about the US and the -- and basically the ultimate rate, the long-term ultimate rate, which currently stands at 4.25% which we decided to set -- keep as it was in the -- when we did our normal assumption review in the first half of the year. Thereafter, you saw US competitors start to drop their long-term rates, usually by about 50 basis points, and it is -- if we add a, let's say, lower -- for longer scenario, then it's something that we can look at for next year. You rightfully pointed out that we are using a longer trading [ph] period than many -- than, let's say, most of our peers and that's an important one. But again these are only -- we talk about IFRS impacts and not anything to do with capital.

We do have estimates for what if we -- for example, what if we were to move the long-term rate from 4.25% down to 50 -- down 50 basis points where many of our competitors have gone and we come up with a number of about 100 million on, let's say, the general account portfolio pre-tax if we were to drop it by 50 basis points and keep the 10-year grade-in period. And then if we went another step and reduced the -- basically the assumed return on separate account bond funds, that would be an additional 50 million to 100 million pre-tax.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay, thank you. That's very helpful.

Operator

Thank you very much, ladies and gentlemen. That concludes today's question-and-answer session. I will turn the conference back to the speakers for any additional or closing remarks.

A - Alex Wynaendts {BIO 1821092 <GO>}

Well, I have no more concluding remarks, other than to say thank you for listening in. Thank you for your continued interest in Aegon. And I hope to see some of you perhaps in a different situation, but I enjoyed the interactions with you. Thank you. Bye-bye.