# Q3 2013 Earnings Call



## Company Participants

- Alex Wynaendts, Chairman and CEO
- Darryl Button, CFO

## Other Participants

- Albert Ploegh, Analyst
- Benoit Petrarque, Analyst
- David Andrich, Analyst
- Farooq Hanif, Analyst
- Farquhar Murray, Analyst
- Francois Boissin, Analyst
- Maarten Altena, Analyst
- Maud van Gaal, Media
- Nick Holmes, Analyst
- William Elderkin, Analyst
- William Hawkins, Analyst

## Presentation

### Operator

Welcome to the Aegon Third Quarter 2013 results conference call on November 7, 2013. (Operator Instructions) I will now hand the conference over to Mr. Alex Wynaendts. Please go ahead sir.

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

Thank you. Good morning everyone. We appreciate that you've joined us today for this call on Aegon's Third Quarter results, and we're well aware that it's a busy day for you. With me today is Darryl Button, our CFO; and also present is Willem van den Berg, Head of Investor Relations. As always, we welcome your questions after the presentation in our usual Q&A session. This is the First Quarter for which we have combined the analyst and media earnings call, but we'll still keep the two Q&A sessions separate; and we'll start with the analysts.

Before we begin, I'd like to remind you to take a moment to review our disclaimer on forward-looking statements.

This quarter we saw again that our strategy is yielding positive results as we experienced continued sales momentum, particularly in our accumulation and at-retirement products. Notably, we saw a significant increase in the market-consistent value of new business, confirming the strength of our distribution capabilities and that we continue to sell the right products at the right price.

In addition to a rise in profitable sales, our underlying earnings increased by 7% to EUR531m. Our net income amounted to EUR227 million despite the significant negative impact of changes made to our long-term economic assumptions to align these better with current market conditions. Our capital position has remained strong, while our cash flow this quarter was adversely impacted by movements in the financial markets and several one-time items.

Our performance this year versus our target is shown on the next slide -- that's slide 3. As you can see on this slide, we're well on track to double our fee-based earnings to between 30% and 35% of underlying earnings, and to increase our operational free cash flows to EUR1.3 billion to EUR1.6 billion by 2015. We expect to grow underlying earnings from the 2012 base to 2015 by at least 7%. And we are on a trajectory of 8% to 10% ROE.

As we shared with you in June, to reach an ROE of 10% to 12%, additional management actions are required. We therefore continue to critically review businesses that do not meet our strategic objectives. An example of this, albeit a small transaction, is the sale of our Czech pension business, where we lacked scale. At the same time we continue to invest in growth opportunities in all our markets, and in particular, our digital proposition.

We maintain our focus on innovative ways to distribute our products to our customers. One such example is the Aegon Retirement Choices platform in the UK, which just recently serviced GBP1 billion of assets under management.

The review of our various accounting methods across our businesses is ongoing, and we will inform you as soon as we have a full picture of which actions need to be taken and the impact these actions will have on our businesses and results.

Let's now turn to the next page and to the continued sales momentum we are experiencing. On slide four you can see that overall sales increased by 9% to EUR1.7b. New life sales were up, and mainly benefited from higher pension production in the UK, the after-effect of RDR and the continued sales growth on our new platform. Additionally we're seeing strong results from our new joint venture with Santander in Spain.

We were particularly pleased with the EUR11 billion of gross deposits and EUR3.4 billion of net deposits for the quarter. Gross deposits for both pensions and variable annuities in the US increased substantially. Net deposits increased even more. US variable annuity deposits tripled and net pension inflows quadrupled this quarter. And in the next slide I will cover US fee business in more detail.

Accident & health and general insurance, however, were 9% lower as a few partnerships in the US were terminated earlier this year.

Overall, we continued to experience strong customer demand for our core products and services, a clear reflection of the strength of our franchise, the depth of our distribution and our focus on offering the right products to our customers.

On slide five I want to briefly highlight our strategic focus on one of our core growth areas, the at-retirement segment in the US. In this segment we enjoy a leading presence, thanks to strong brands, an expanding distribution network and a suite of innovative products and services.

As you can see here, our variable annuity pensions and mutual funds businesses have each generated on average double-digit annualized growth since 2009, while at the same time margins have improved. This is a result of product and service innovations, economies of scale, expanding distribution as well as market dynamics. In addition, this quarter 42% of our variable annuity deposits and 53% of our retail mutual funds went into Aegon asset management funds.

Our strategy is to retain our clients assets through the entire cycle, helping them accumulate as they prepare for retirement and also helping them manage the drawdown of their assets during retirement. And we believe that this strategy will be a key driver of long-term growth going forward.

The products and services we offer must meet our strict profitability hurdles, meaning that we can be confident that the strong sales growth we see today will also result in strong future earnings; and this is evident in higher market-consistent value of new business, as illustrated on the next slide.

Here on slide 6, as you're well aware, we are committed to offering products and services that provide value to our customers and to the Company. And this is clearly reflected in the significant increase in market-consistent value of new business we achieved this quarter.

In the Americas the value of new business more than doubled. Variable annuities were a key driver of this increase as a consequence of higher volumes and higher margins, supported by increasing interest rates. The improvement in the US life business is a result of active re-pricing and the withdrawal of products that did not meet our profitability hurdles.

In The Netherlands the market-consistent value of new business increased significantly on a solid contribution from higher mortgage production. And as the slide indicates, the MC VNB in the UK was impacted by lower margins on annuities and auto enrolments.

And in our new markets, MC VNB benefited from strong sales in Asia. As you can see, shifting demographics and aging populations are particularly pronounced in Asia and generate significant demand for our products and services.

In addition to increasing sales, our profitability is supported by improving efficiency; and therefore we continue to look with a critical eye at every possibility to further improve these efficiencies.

Now turning to slide 7, on a comparable basis and at constant currencies, operating expenses were up 4% compared to the Third Quarter last year, mostly due to higher sales and employee-performance-related expenses that resulted from strong business growth.

In the Americas operating expenses were higher, mainly due to increased sales-related expense as a result of strong sales of variable annuities and mutual funds. However, we continue to work towards our stated objective of keeping costs flat while growing the business. An important step towards achieving this is by implementing a significant reorganization by which we'll consolidate our support functions in the Americas into one shared service center called enterprise business services.

At the same time we're also taking a critical look at parts of our operations that could effectively be outsourced. The total number of positions to be eliminated over the next six to nine months is expected to be approximately 150.

In the UK the ongoing transformation of our business into a platform model requires additional investment. We are now in the process of creating a fully digital interface for the non-advised clients group in order to facilitate the upgrade to the platform.

Significant cost savings have been realized in the UK over the past few years and these efforts will continue. This year we've closed sales offices, and we are now working to improve efficiency of our back office; and these efforts should lead to a total reduction of approximately 530 FTEs in 2013.

I will now turn it over to Darryl for more information on our earnings and financial position. Darryl?

## Darryl Button {BIO 7089946 <GO>}

Thank you, Alex. Here on slide eight I would like to take a closer look at underlying earnings, which I am pleased to say rose by 7%, including one-time items of EUR27 million and favorable mortality of EUR15m.

In the Americas higher earnings were driven by pensions and variable annuities as well as favorable mortality in life and protection, and a positive impact of assumption changes and model refinements. This growth was partly offset by unfavorable currency exchange rates. In US dollars earnings were up 8%.

Underlying earnings in The Netherlands were stable at EUR85m. Pension earnings increased and we saw improved results in non-life. This, however, was offset by lower life and savings earnings, due mostly to the previously announced reduction in policy charges.

In the UK reported underlying earnings decreased 4%. At constant currency, results increased as our pension businesses benefited from higher equity markets.

Earnings from our new markets increased 6%, due mostly to the benefit of actuarial assumption changes and one-time items in Asia.

Holding results improved by EUR25m, mainly the result of lower interest expenses following debt redemptions and reduced operating expenses.

On slide nine you can see that the fair value loss of EUR493 million had a large impact on net income. I will address this further in the next two slides. Realized gains were mainly driven by portfolio adjustments in The Netherlands -- to bring it in line with the new regulatory yield curve -- as well as normal trading activity.

Impairments remained low at EUR45 million and were related to impairments on structured assets in the Americas, a single corporate exposure in the UK, and residential mortgage loans in The Netherlands and Hungary. Impairments in our Dutch residential mortgage portfolio reduced to EUR8 million this quarter or an annualized 14 basis points.

Other income amounted a loss of EUR42m. Proceeds from the exit of our joint venture with CAM were received in the Third Quarter. This, along with the gain from the recapture of certain reinsurance contracts in the Americas, was more than offset by the write-down of intangibles related to our Polish pension business and restructuring charges in the US.

Income tax amounted to a benefit of EUR73m, mainly driven by the UK, where the corporate tax rate reduced from 23% to 20%.

Slide 10 provides more detail on the impact of fair value items. The results from fair value investments were positive for the quarter. And fair value hedging programs, where we largely have an accounting match, continued to be effective. Fair value hedging without an accounting match resulted in a loss of EUR116m, in line with expectation.

Strong equity market performance drove losses on both the equity collar hedge as well as on the macro hedge. As you may recall, our guidance for the macro hedge is a quarterly loss of $70 million if markets move in line with our assumptions. Now that we have adjusted these assumptions, we expect the macro hedge run rate to move closer to a loss of $60 million to $65 million per quarter.

The main driver of the other fair value items was the impact of the changes that we made to our long-term economic assumptions. More information on these assumption changes is on the next slide.

Here on slide 11 you can see that we made more prudent changes to our economic assumptions, resulting a loss of EUR405m. Our annual equity market total return assumption, which includes the dividends, has been lowered from 9% to 8%, accounting for EUR135 million of the total impact.

The long-term assumption for 10-year US treasury yields was lowered by 50 basis points to 4.25%, and we have extended the grading period from 5 to 10 years. The assumed return for separate account bond funds, which mainly relates to variable annuities, is now 4% for 10 years and 6% thereafter. These interest rate-related adjustments accounted for the other EUR270 million of the total impact.

The updated assumptions are now more in line with the current market conditions, our economic framework, as well as the assumptions used for our regulatory framework. More alignment between the various assumptions creates less discrepancies in, for example, our hedging programs. Please be aware that these changes relate to our IFRS results and do not impact our cash flows, which I will discuss on the next slide.

On slide 12 you can see that operational free cash flows for the quarter were negatively impacted by various market impacts and one-time items. Market impacts include the effect of lower credit spreads in the UK and a tax impact of hedging losses in the US seen this year due to higher equity markets.

Several items impacted our capital position in the Third Quarter that we consider non-recurring. The primary drivers include increases in required capital, mostly in the US, and a few exceptional tax-related items. Excluding these exceptional items the Company's normalized operational free cash flows were EUR291 million for the quarter.

Turning now to Aegon's capital position at the end of the Third Quarter here on slide 13, our Group IGD ratio decreased to 208%. This was driven mostly by our move to the swap curve when calculating the IGD ratio for The Netherlands and the payment of our interim dividend. S&P excess capital in the Americas increased by approximately $100m, as quarterly earnings were partially offset by tax impacts and one-time increases in required capital.

The IGD ratio in The Netherlands, excluding the bank, was stable at 245%. This ratio and the Q2 comparative shown reflect our move from the ECB AAA curve to the DNB swap curve. Three weeks ago the DNB provided an update on the progress of Solvency 1.5, and we do not expect this to impact our capital management framework.

We are now managing the UK capital position using the Pillar 1 ratio, including the with-profit fund. This ratio was 140% at the end of the Third Quarter, up from 130%, reflecting an additional GBP150 million of capital we have injected into the business. We are currently working to quantify our internal target and buffer capital levels based on this metric.

Aegon's financial leverage ratio improved to 30.1%, as you can see on slide 14. This improvement was driven mostly by a reduction in short-term leverage of approximately EUR200m, which followed the $750 million senior bond redeemed last quarter. Holding excess capital decreased to EUR1.8 billion in Q3 as the proceeds from our CAM divestment were more than offset by the cash used to fund the interim dividend and capital injections into our business.

Alex, back to you.

## Alex Wynaendts {BIO 1821092 <GO>}

Thank you, Darryl. And before taking your questions, ladies and gentlemen, let me reiterate.

Our Third Quarter was again a strong quarter in terms of underlying earnings, sales and market-consistent value of new business, with net income and cash flows impacted by one-time adjustments. We are seeing that the actions we are taking to reshape our business are creating value for our stakeholders; and looking ahead, we're confident that the continued execution of our strategy and our strong capital position will enable us to achieve our ambitions.

We're happy to take your questions now.

# Questions And Answers

## Operator

(Operator Instructions) Farquhar Murray.

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

Morning, gentlemen. It's Farquhar Murray from Autonomous Research. Two questions, if I may, all related to the cash flow figures on slide 12. Firstly, could you decompose the EUR112 million one-time items, just between the regulatory requirement change and the tax item there?

And specifically on the regulatory requirement change, could you just explain what this was? I presume it's the S&P change, but some additional color there would be helpful.

And then secondly, even adding back the market and one-time items, the normalized figure of EUR291 million was a bit weak relative to recent quarters. I just wondered whether -- what was driving that and whether there were any other one-time items that we should bear in mind within that figure. Thanks.

## A - Darryl Button {BIO 7089946 <GO>}

Hi Farquhar. It's Darryl. Yes, let me take your cash flow questions. Specifically there were a couple of things impacting the cash flows this quarter, some what I would call market-related and some non-market-related.

On the non-market-related, I think that was maybe more your question -- it was really a number of small items across the Group. We had some effect coming through from some of the required capital calculations in the US related to variable annuities. Some of that has to do with the way we do the smoothing calculation on the required capital. There were some impacts coming in The Netherlands related to the bank. We had brought the bank in underneath our internal capital framework this quarter.

Also, back in the US, a little bit of strain coming up from the life business. Because of the captive reviews going on in the US, we have not been doing our normal financing of the XXX and AXXX reserves. So that's been postponed in the interim, and so that has a little higher strain than normal on the life products. So it's a number of, I would say, small one-time items that are adding up to give that impact.

On the market-related impacts, I'm not sure if you had a question on that, but it was really broadly two categories. The spreads in the UK, these would be improving credit markets that actually have the perverse and inverse relationship on the UK Pillar 1 ratio. And then in the US, because of the tax loss -- because of the losses we've had on the hedge programs, that does create some tax friction in our statutory and regulatory accounts; and that caused an impact this quarter as well. So quite a few number of smaller negative items that added up this quarter.

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

And just to confirm, all those items you've mentioned there, though, are within the EUR203 million one-time impacts?

## A - Darryl Button {BIO 7089946 <GO>}

Yes. And so those are all in there. And then of course what's not in there is just the impact of a weaker dollar. That has an impact on the overall cash flows as you measure them in euro. That's not inside the one-time items. And so that's what also impacted the number this quarter a little bit soft.

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

Okay. Brilliant. Thanks very much indeed.

## A - Darryl Button {BIO 7089946 <GO>}

Yes.

## Operator

Farooq Hanif.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Farooq from Citi. Thanks very much for taking my question. First question, could you just talk about some of the rationale for the change in approach in the UK Pillar 1? And does this -- if it's likely to affect your previous forecast of when the UK could be cash-generative to the holding.

Secondly, could you give us a little bit more of a view of the market dynamics of the VA right now in the US -- so, for example, what your market position is and what you're seeing in terms of competition?

And lastly, any brief update you can give on timing of some kind of decision on Omnibus 2 and Solvency 2, and what you think's going on there? Thank you.



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

Farooq, thank you. Darryl will take the first question and I will cover the second and the third question.

## A - Darryl Button {BIO 7089946 <GO>}

Sure. Yes, Farooq, on the first question, UK Pillar 1, really it's evolving conversations with the PRA. We had been looking at a capital ratio on the -- excluding the with-profits funds on the with -- yes, excluding the with-profits fund in the past.

Through our conversations with the PRA, it's very clear that they look at a combined ratio that includes the with-profits fund. It's an interesting ratio. The surplus of the with-profit fund is included in both the numerator and the denominator, so it draws the ratio back down towards 100% by definition. I'm not convinced it's necessarily the best way economically to look at the capital, but that is the ratio that they're monitoring and managing to.

We're obviously looking at other aspects of the business, too. It's not just a singular ratio in terms of how we look at capitalization and look at risk in the UK in our conversations with the PRA. But suffice to say, it's through conversations with them that we've decided to convert over to here.

As I mentioned back in June, we're quite happy with the strength of the US and The Netherlands balance sheet. But the UK, we were not, and we were on a path to organically strengthen that balance sheet. And what's happened here is that we've decided to accelerate that strengthening of that balance sheet. And again, that's through conversations with the PRA that led us there.

In terms of your second part of that question, impact on future dividends, I think the trajectory and the path remains intact. The cash flow positions, as I mentioned in June, of the UK do get much stronger as we get to the back end of 2014 and into 2015. And that's when we expect to receive some dividends from the UK. But we've had to accelerate the capital now to stay on that trajectory.



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

Thanks, Darryl. Yes, Farooq, on the VA dynamics, I would say it is the same story as the previous quarters. What you're seeing here is that the work we've been doing on expanding distribution: focusing on that segment of the market that we are -- we want to be focused on, which is really the living benefit segment, which fits well in our strategy of helping our customers not only to generate assets, but to be able to draw down these assets in retirement, which is of course becoming more and more important with baby boomers retiring. It's all part. You see the results of that strategy right now.

At the same time we had extended towards a number of distributors. We've shared a few with you, names, last time. I think the last one I'm happy to share is that we also now are the provider for Voya Life, formerly ING. That just is one example of the expansion of the distribution in a segment that we think is the right segment and that puts us in the right position.

As you can also see, and I mentioned, that the market-consistent value of new business increased, and particularly also in the areas of VA. I think it's not surprising with interest rates creeping up a little bit, that gives more room; and that explains also why the margins are improving, in addition to the fact that we're increasing our scale; and that has a positive impact on expenses.

Now in Solvency 2, yes, what is my view? I have the sense, Farooq -- and I think that's shared now with my colleagues in here and Europe -- is that we have probably never been as close as to be able to reach, to come to an agreement. I think there is a very clear determination right now from the European institutions and many that are involved, Parliament, Commission, the member states, EIOPA -- they want to come to an agreement. And I think we're getting very close to what is an agreement that would potentially be acceptable to the different parties involved.

I'm also therefore more optimistic now about the date of January 1, 2016; although even if we see an agreement being reached right now, in the month of November, it still is and it will be a big challenge to get everything done in time for November 1, 2016.

I also believe that the discussions in the IAIS around a ComFrame and creating more of a global framework for international active insurance groups, the IAIGs, as they're well known, is probably also putting a bit more pressure now on the European institutions to come to an agreement so that at least there is one agreement here in Europe. And that will make the discussions -- in the context of a global framework, will make these discussions easier.

So I will remain cautious. This is very political. But I do believe that we have never been as close as we've been to reach an agreement there.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you. Very informative, as usual. Thank you, very much.

## Operator

David Andrich.

## Q - David Andrich {BIO 15414075 <GO>}

Hi. Good morning. David Andrich from Morgan Stanley. Just two questions on my side. First of all, I was just wondering, in terms of the FTE reductions, both in the US and UK, maybe if you could just give us an idea of maybe the quantum impact on costs going forward.

And then just in terms of the strong deposits and sales in the US, I was wondering, before in the past you've discussed on the focus on the at-retirement and retention of assets; and I was just wondering if maybe you could give a bit more granularity in terms of the split between new sales versus retention, and how we should expect to see that develop. Thank you.

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

David, I'll take your second question. Would you mind to repeat your first one? The line wasn't good.

## Q - David Andrich {BIO 15414075 <GO>}

Sorry, apologies. I was just wondering about the FTE reductions in the US and the UK -- in particular, the consolidation of the shared service center, and what impact that might have on expenses going forward.

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

Yes. Okay. Well, let me take the first question. As I did say in my introduction, we are seeing strong growth in the US. And what we're seeing as a result of that is that sales-related expansion -- expenses are increasing. Especially in the areas of variable annuities and mutual funds, a lot of our expenses are variable and are related to sales there.

Nevertheless, we have very clearly stated our ambition of keeping our expenses flat over -- in the coming years. And obviously that would require, in order to achieve that, that we achieve further efficiencies. And that's why we announced here a first step in the shared services, the EBS, enterprise business services, in the US, which is a creation where we bring in together, in particular in the first step, finance and IT functions. And that is what is allowing us to reduce expenses through the reduction of headcount.

I think the first step we have clearly provided of this right now was 150 heads to be, effectively to be eliminated. This is an ongoing process, and it will as such have a significant impact on expense going forward; and it will allow us to meet our ambition of keeping expenses flat. So that should give you a pretty clear idea as to where we believe these expense reductions will come from in the future.

Now in the UK -- I mean, again, this is an ongoing story. For us it has been very clear that we need to adjust our expense base to the new reality. And if you look at the new realities, with margins that are lower in the platform world post-RDR, we have to ensure that our expenses are aligned to this new reality of lower margins. And that's why you will see a continuation of expense reductions in the UK.

So we've had a first rollout of 25%, which was completed by the end of 2012. And I think I've made it very clear that we will continue to see significant reductions going forward. We will announce them and share them with you when we also announce them internally. You will understand that it's important that we continue to manage the Company -- that we also continue to keep the people focused on the right things.

But I think that in 2013 530 FTEs is quite a big number. These were mostly related to our sales network. As you know, we had sales networks all over the UK, with branches -- so quite a lot of staff. We've taken that down. And the next focus is more on the back office, where not only will we try to improve service levels, but at the same time doing this more efficiently. An ongoing story, it is part of our ambition to get expenses to the level that we need to have in the new world.

Your first question on deposits: yes, and I'm pleased that you recognized the strong deposits we've seen here in the US. This is at the core of our strategy. We've said very clearly to you previously that we are making choices in which business we want to be and business we do not want to be. We've taken action on those that we do not want to be. That now means that we are focusing all our efforts in building this, call it, at-retirement segment.

And why is this important? Because we accumulate asset through different forms for our customers. They can do that individually. They can do this through life insurance. They can do it through mutual funds. But also a lot of them do that through corporate plans, the 401K plans or the 403B plans.

And what we have seen is two things. First of all, that a significant part of those employees that are part of a corporate pension plan effectively were not getting adequate service at the time of retirement. And this is exactly where we're now focusing our efforts on is to make sure that those employees that are part of our corporate pension plans, when they retire, they stay with us in the system. And that is what you see here also very much reflected.

The second thing, and I think is equally important, is that a lot of people that have saved in their corporate pension plans have assets, accumulated assets, which is not significant or sufficient for them to be serviced properly by face-to-face agents. Just to give you an idea, we believe that for those that have assets below $1m, they will not be targeted by agents, life planners, financial planners, just because with the complexity of regulation and compliance requirements, it's just not worth it.

So there's an increasingly growing segment of people that saved in their life; that retired; and at the time of retirement, effectively are totally underserved. We believe this is explicitly the segment where we can be successful. It's a segment where we have the products. We have all the products already. It's now about making sure that we connect with those customers at an early stage, that we offer them the service. And increasingly we're doing this fully electronically or through digital channels, because that is the most cost-efficient way of doing that.

So this is at the heart of our strategy, and you will continue to see us focusing on it. And I'm actually therefore very pleased with the very strong development on the accumulation side, but also on the dis-accumulation side.

This trend in the UK --- sorry, in the US is what we are seeing increasingly in the UK. We shared with you in the UK that we are going to launch fully a digital capability for our individual customers, very much focused on those customers that are part of our corporate pension plans now and that retire and that need the services and products which we have available.

## Q - David Andrich {BIO 15414075 <GO>}

Great. Thank you, very much.

## Operator

Albert Ploegh, ING.

## Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning all. Albert Ploegh from ING. Yes, thanks for taking my questions. A few questions on the gross leverage; and also the accounting consistency review on the US debt that has been flagged earlier on, which is more a full-year event. Can you maybe give a bit more feeling of whether or not you've changed your views on that consistency change, and what the impacts might be? In the past you've flagged maybe 10% potential impairment on US debt balances.

And related to that, in case your gross leverage as a result would be above 30% by year end -- is that a concern to you, or do you think that's manageable in relation to what rating agencies might expect from you?

Second, two questions on the Dutch business. First of all, on Koersplan, you already have taken and charged earlier this year following a court ruling. I think there's still some discussions ongoing with associations. Can you maybe give us an update on that, how that is progressing?

And second question on the Dutch business is that one of your peers here has basically had an unfavorable ruling in a disability case. Are several -- are similar cases also pending with Aegon? Thank you.

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

Darryl, would you take the second -- the first and the second question? I'll take the --.

## A - Darryl Button {BIO 7089946 <GO>}

Yes, I will. Really, on the accounting change, I think all I'll do is repeat what Alex said in his opening remarks, which is: the review is ongoing, and we will inform you as soon as we have something. I'd say nothing, Albert, has changed in any way from the messaging and the guidance that I gave you back in the summertime. So I'd say we are still on track with that and no change there.

In terms of how we look at that in relation to the leverage ratios, we are tracking right around the 30% now. If it was to lead to a higher leverage ratio at the end of the year, would that be a problem? No, I don't think so. I think we would look to calendar year 2014 to bring it back in line.

So we still maintain those leverage ratio targets, but in terms of discussions with rating agencies, it's never a point-in-time discussion. It is a forward-looking discussion. And we've already signaled that we intend to do more deleveraging in 2014. So I think you can look at that as a package, and we're still on track with that.

Alex, on the --

## Q - Albert Ploegh {BIO 3151309 <GO>}

Thanks, Darryl.

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

On the Dutch business, Albert -- yes, on Koersplan, as you are aware, we have settled with the Stichting, the association which represent around 35,000 customers. We've also, I think, issued a press release, which was pretty clear in the sense that, yes, the association and Aegon were pleased with the way this was dealt with; and it stayed within the provision which we had shared with you earlier, the EUR25m. So that's where we are.

## Q - Albert Ploegh {BIO 3151309 <GO>}

I mean more with, let's say, the other cases -- other people that are not part of this settlement, whether you will do anything with them.

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

Well, what we have said when we settled this case is that obviously we would be looking at all the other policyholders, and we would want to make sure -- ensure that they have adequate levels of premiums, and we would review that. You can imagine, these are over 500,000 policies, and that will take some time.

On the Dutch business, you are referring to the disability case of another company. Let me just say one thing. It will not impact --- we don't expect it to have any impact on us, for the simple reason is that we have only been increasing premiums on a contract by contract basis upon renewal. And we have not raised an en bloc increase in premiums; and therefore, it's a very different situation for Aegon, and that's why I don't expect any impact.

## Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Very clear.

## Operator

Benoit Petrarque.

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

Yes. Good morning. It's Benoit Petrarque from Kepler Cheuvreux. Three questions. The first one is on the IGD ratio in The Netherlands, 245%. It's a very good level, obviously; but given that you -- your move to the swap curve, what can we expect in terms of new sensitivity of the ratio going forward? I understand that the swap curve is -- the forward curve is a little bit more volatile, so could you talk a little bit about the sensitivity there?

And in The Netherlands, clearly, solvency ratio of pension funds have been improving recently. What do you -- how do you see to the pension pay plan currently?

And could you talk a bit about margins on this pension business? I've seen you've allocated some more mortgages to the pension book, but how much margin could we expect in percentage of AUMs will be useful.

Then last question is on the holding expenses. It's just EUR25 million this quarter. It came down a lot in the past two years. How much of the EUR25 million is recurring? Is that a good level to forecast 2014? Thanks.

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

Darryl, on the IGD and the holding expenses.

## A - Darryl Button {BIO 7089946 <GO>}

Yes, let me jump in with those two. In terms of the NL IGD ratio at 245%, you're right. I'll concur with you. It is at a good, strong level. We're happy with that.

And in terms of volatility going forward, that's actually why we incurred quite a few realized gains this quarter. We have been re-trading the asset portfolio to have a better match with the underlying swap curve on the liability side to actually take that volatility down. So we were a net seller of German and French sovereigns this quarter and reinvesting in something that gives us a little bit better match with the underlying swap curve. So that's something that we will continue to manage, and manage that volatility down by making our ALM decisions.

On the holding, the holding expenses, the holding costs are down. They are down really on the debt redemptions that we did last year, as well as cost reductions that we've been taking here at the holding as well.

And Alex, I'll turn it back to you.

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

Thank you, Darryl. You see, on the holding I think we need to be clear that we are expecting from our country units and business units increased efficiency; and we are implementing that in all our country units. Therefore it's also very clear that we have the same approach here to the holding, and that's what you see reflected here. And I am pleased to see the result.

On the pension market here in The Netherlands: as you know, this is always a bit of a lumpy business, so it's difficult to look at quarters --- sorry, sales on a quarter-by-quarter basis. You're absolutely right; ratios have improved, and that means it is now going to be easier for pension funds to transfer the liability to insured solutions.

Therefore, we expect also going forward that our strong brand name in the market, combined with a strong capital position -- which I think is really important here, because these decisions are long-term decisions where you are transferring the liabilities out of a pension fund for many years to an insurance company -- will drive more of the business going to us.

What is important -- and, as you know, we have been very consistent there -- what is really important is that we maintain our pricing discipline. And therefore with a relatively lump -- a small number of players, and us being the one with clearly the strongest capital position, we will maintain our pricing discipline. With the pipeline that is now close to come to us, we'll see, in my opinion, in the coming quarters good sales development at attractive margins. Because we are not interested, as you know, in taking big tickets on our book if we are not able to get the right margins. And with the number of providers diminishing, it is clear that margins will be better for a company like Aegon.

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

Just on the holding cost, so the EUR25 million per quarter, is that a good run rate for 2014?

## A - Darryl Button {BIO 7089946 <GO>}

Yes, I think it's pretty close. Maybe a little bit, might be a little bit higher, but I think it's close. It represents the new cost base where we are right now and the debt redemptions that we've had.

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

Cool. Thank you, very much.

## Operator

William Hawkins.

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

Thank you, very much. Morning. It's William Hawkins at KBW. In the context of how the markets are moving and how you've just changed your assumptions, how are you feeling about rolling the collar hedge that you've got for US variable annuities next year?

And then secondly, could you explain a little bit more about this reinsurance recapture that you've done? I understand vaguely that it's to do with life and protection in the US, but I'm trying to make my mind up about whether long term this is a good or a bad thing. Often when you recapture reinsurance, there can be an upfront profit; and then there's a load of losses that follow afterwards. So can you explain the context and then future financials of that reinsurance recapture? Thank you.



## A - Darryl Button {BIO 7089946 <GO>}

Yes, William. I'll take those two questions. How we're feeling about the collar hedge: actually, really, the collar hedge itself is a macro hedge in addition to the macro hedge we had before. So we are actually going to step back and take a look at both hedges and look at restructuring both of those, and probably execute that in the First Quarter.

So in the interim while we -- so we are working on that now. So in the interim we are going just continue to roll the delta of the two hedges forward until we complete that restructure. So I think in terms of giving any forward look or guidance from the restructured hedge up, that will have to wait until Q1.

We are of the opinion, though, the markets have done well this year. We think that's largely the wrong time to be taking a lot of hedges off. So we're really not in the market timing game. So we'll roll the existing deltas forward and restructure both hedges in the First Quarter.

Reinsurance capture: yes, no, you're right. It was a negotiation between us and a reinsurer. We did recapture the business. We did receive an upfront premium to do that, and that's what got booked through in the -- below the line, below the underlying earnings. It was a relatively, I would say, economically neutral transaction for us.

So unfortunately the accounting is not great on this. I think better accounting would have been to defer that gain over the life of the business; and then I would have been able to say, no change. Because we did have to upfront some of that profit because of the cash payment, and it was an economically neutral transaction, that means that that effectively creates some headwinds spread over into the -- over the next 25 years, if you will. That's probably the best way to think about that gain that came through.



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

Over the next 25 years. So this is effectively some kind of YRT recapture, is it?

## A - Darryl Button {BIO 7089946 <GO>}

Yes, correct. Yes.

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

Thank you.

## Operator

William Elderkin.

## Q - William Elderkin {BIO 3349136 <GO>}

Thanks. Good morning, everybody. It's Will Elderkin from Goldman. A couple of questions on the UK business, please. First of all, in terms of all of the expense reductions you've put through this year in the UK operation, to what extent does the Third Quarter profit that we can see reflect those expense benefits? In other words, some stuff you've already done, are there further benefits to flow in?

Secondly, in terms of the UK tax rate, historically that UK tax rate has been very volatile in the business. Can you just give a sense of what we should be using in our models going forward, reference to that UK corporate rate of 20%?

And finally, in terms of auto-enrolment, can you just give a sense of -- is that developing as you expect, and do you have any broader thoughts on the opportunity for you there?

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

Yes, in terms of expense reductions, as you know, it has to do with timing. Secondly, what you also have to look at, William, is what type of expense reductions they are. Is it maintenance expense or acquisition expenses? And I did here make the point that we have focused on sales-related expenses so acquisition expenses, which means that you only see a partial impact in your earnings because the other part is being deferred. So I think you need to see a couple of quarters before you get a very clear understanding of what extent the expense reductions will be impacted, because there are a number of factors playing a role.

What is important is that it's clear to us that we need to take our expenses further down. We will take them further down. We've now focused on acquisition expenses. Going forward we will now be focusing more and more on the administrative expenses, which are maintenance expenses, which will have a greater impact, immediate impact on underlying earnings.

In terms of auto-enrolment, I do think it's a bit early right now. As you know, there's many discussions around it in terms of what margins we can apply, in terms of commissions -- because, obviously, it has very much to do with commissions. So I think we are in -- it's too early now to say that we have a clear view as to how auto-enrolment is going to work out for us.

One good thing, clearly, is that you get more assets; that is clear. Now the question is, at what conditions? And there is now a new debate, as you know, going on about -- from the regulator to what extent we are indeed -- sorry, whether we have to pay commissions on that part of the business, which obviously will affect the profitability there.

In terms of the tax rate, Darryl?

## A - Darryl Button {BIO 7089946 <GO>}

I have a very short answer. I don't have a better number than the 20%. So I have no insight beyond that. So if it was me, I guess I'd use 20%.

## Q - William Elderkin {BIO 3349136 <GO>}

Thank you. May I ask one follow up I should have asked at the start? In terms of this broader debate about a 75 basis points charging cap on pensions in the UK, does that have any particular implications for the UK pension operation?

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

Well, as you know, we have a book which is quite an old book, because we've been in the business for a long time. We have a lot of corporate business. We have individual business. What we have given you is the total -- for the total book that we have -- on the old book, we are around 110 basis points. But there is a mix of corporate pension plans which are clearly lower, and individual pensions and other products that -- where margins are higher.

So I don't expect this to have a big impact on the back book, certainly, if it's 100 basis points or potentially 75; but again, here it has to do with the discussion I mentioned earlier about commissions. Is it backwards-looking? Is it going to be forward-looking? To what extent is forward-looking only will that have an impact on the back book? Too early to say, but what we are now assuming that it's mostly going to be forward-looking and to be applied as such -- pensions, which is new business on the books.

## Q - William Elderkin {BIO 3349136 <GO>}

Okay. Great. Thank you, very much.

## Operator

Maarten Altena.

## Q - Maarten Altena {BIO 15898902 <GO>}

Yes. Good morning. It's Maarten Altena from Mediobanca speaking. Three questions from my side. The first is on the economic assumptions. You seem quite conservative with your 10-year assumption instead of 5-year to now reach 4.25% for US treasury. However, in order to be really conservative, could you give us a ballpark figure what the impact will be if we assume the current interest rate levels over 10 years as some kind of sensitivity?

The second one is on the US pensions, as your US pension balances and margins both developed favorably. And according to your well-known baby-boomer story, the balances are likely to continue to increase. But what further room do we have to sustain a beneficial margin trend? Maybe some color around that?

And briefly on The Netherlands, as you talk about impairments on the residential mortgage allowance in The Netherlands of 14 bps, could you elaborate on the trend here -- whether it's accelerating, decelerating, stabilizing, or maybe rather protected by the government guarantee? Thanks.

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

Darryl, will you take the first question?

## A - Darryl Button {BIO 7089946 <GO>}

Yes, let me jump on the first one. You asked for a sensitivity on the -- I think if interest rates remain flat. Yes, first of all on your conservative comment, what this does do is it brings our IFRS assumptions almost on top of the forward curve. So for the first time, I think, in a long time we've had really market assumptions inside the IFRS numbers, which I think is a real positive for the organization in many ways in taking that disconnect, discontinuity down between our different assumptions that we work within.

In terms of sensitivity I think the best I can do is just break the EUR405 million impact, which really came across three different pieces: the equity change from 9% to 8%, the change on the interest rate curve, and then the separate account bond fund return. When I look at the interest-rate-only component of that, which is the -- I think the sensitivity you're looking for, that was about half of the EUR405m. So when you map it out and draw it out, and look at the change we made, the piece from dropping by 50 basis points and flattening out the long-term curve -- that was EUR200m. I don't have another or better sensitivity that I can give you at this time.

Pension margins in the US, do you --?

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

Yes. Obviously, we are pleased with the pension margins, 26 basis points. That is above our target of 25 basis points. The combination of strong sales, but also continued efficiency improvements, and you will continue to see that. We are continuously looking at ways of reducing our expenses. As you know, we are bringing our businesses together. We had, call it, the big ticket -- diversified and smaller cases, Transamerica, all under one, in one pension business.

And in terms of margins what we are seeing is that in the big cases, margin compression -- margins are still under pressure. It's a line what we'll see in the market. On the smaller cases, let's say up to EUR100m, there, there is less margin pressure.

However, I think we should take into account the fact that more and more of our competitors will also be focusing on that part of the market where we see less margin pressure, and therefore you could expect more pressure coming in, in the future, which only reconfirms our position and strategy, which is about being more efficient and taking expenses down. And we will continue to take expenses out so that we can maintain our margins at this level.

The second element to it, which is not included in the margins -- and I raised that in a previous question -- is that we are more and more focusing now on retaining these assets that mature with an employee retiring in our system, so that we'll be looking at the total chain much more than the individual pieces.

So we'll have the accumulation piece, but we believe that we only today have very small parts of these assets that mature that stay with Aegon; and that more and more we're focusing on keeping this -- these assets with us, which will effectively, as you can imagine, strengthen the value chain and allow us to take a bigger part of the total value chain, particularly in the area where margins are higher.

## Q - Maarten Altena {BIO 15898902 <GO>}

If I can comment on that one, would you be able to come up with a ratio which number of clients are retained now; and how that developed over the last, well, let's say 10 years; and where you expect it to go to?

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

Yes, it's difficult to say where we expect it to go to. I can tell you that we are working very hard and developing plans on increasing that. Today the percentage is relatively low. It's single digit. That's where it is. It is not much more than that.

The reason also being we've never so much focused on it. And with our strategy of focusing on the retirement segment within, as you know, our purpose of helping customers securing financial futures, we're much more focusing now on this on an integrated basis. And we see now an increase in that percentage. We'd rather like to update you when we have a strategy session in June as to where our ambitions are there; and clearly, it is possible to increase the amount we retain significantly compared to where we are today.

In terms of mortgages, you mentioned 14 basis points. Keep in mind that we had a very significant part of our book in mortgages with a Dutch government guarantee, these famous NHG. That clearly helps. We are seeing mortgages with very low impairments, 14 basis points, very low. We should take into account -- obviously, with the environment not being as good as we would like it to be, and that could trend very slowly up, but still well within our pricing assumptions.

## Q - Maarten Altena {BIO 15898902 <GO>}

Okay. Perfect. Thanks so much.

## Operator

Nick Holmes.

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

Hi there. It's Nick Holmes at Soc Gen. I had just a couple more questions on the economic assumption changes. First one is how conservative do you think you are compared with the US peer group?

And secondly, can you give us a split of the EUR270 million between the three elements? Thanks.

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

Darryl?

## A - Darryl Button {BIO 7089946 <GO>}

Yes, Nick, I'll take that. How conservative are we now relative to the US peer group? The answer is very conservative. So we actually see some -- I see some statistics on that, so I can say that fairly confidently, that we're top quartile in terms of on that metric.

In terms of a split I can give you, yes, I can give you a split on the equity market component of the EUR405 million was EUR135m; a little under EUR200 million for the interest component; and about EUR70 million on the bond fund component.

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

Right. And, yes, just coming back to the US -- so you feel that you are significantly --- well, you are more conservative. And therefore is this a source of debate within the US industry, that you are moving away from the peer group and consensus? Do you find other companies raising questions about what you may be doing?

## A - Darryl Button {BIO 7089946 <GO>}

I don't know. I guess that's really -- I can't comment too much on the other companies, so I'll stay with ours. I would add a couple of other proof points to that, too. Sometimes you'll find just total separate account return assumptions. We do break ours between the equity and the bond fund components, and our bond fund returns are down at 4%.

And you have about -- on the annuities in particular, we have about a 50/50 split between equity and bond funds. So when you start to factor in that, that's what really pushes us down on the level of conservatism. On the interest rate assumptions, same as well; we are towards the lower end now with this new assumption set.

So all I can do, Nick, is comment on where we are. And I feel good about where we are, and I feel good about lining these assumptions up with -- as I said before, with the market, which gives us impacts; or it gives us, I would say, beneficial impacts as we go and do things like hedge programs and capital market transactions. So I feel good about our position.

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

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

## A - Darryl Button {BIO 7089946 <GO>}

Yes.

## Operator

Francois Boissin.

## Q - Francois Boissin {BIO 16045021 <GO>}

Yes. Good morning everybody. This is Francois Boissin from Exane BNP Paribas. Two questions, please. The first one really is on the value of new business. Been increasing quite significantly year on year. Could you comment on how much will it be on order of magnitude of how much of the increase comes from better market conditions and how much comes from more efficient operating costs? And a comment on the sustainability of this level of value of new business would be quite useful.

The second question regards your investment strategy. Can you comment on your current investment yield on your back book and your reinvestment yield? And also, the breakdown of your new investments would be quite useful. Thank you, very much.

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

On the value of new business, I think what we see here is the implementation execution of our strategy. We said very clearly as a strategy as a company, we want to sell the right products to the right customers at the right price. They have to create value for both customers and they have to create value for us. Otherwise it's not a sustainable business model in which we are operating in.

So the improvement has mostly to do with the fact that we have priced our products in line with the market realities. And, as you know, for variable annuities, for example, our guarantees we hedge the delta and we hedge interest rate. Most important here is that we have re-priced products. We have taken products off the shelf where we were not able in this environment to make them work. We've taken our expenses down.

So the answer to your question is that most of the impact is management decisions to re-price the products, not sell products that are not meeting our hurdle rate, and being prepared and being courageous enough to take old product lines off the shelf because we just don't see how they work in this environment. So it's a lot of negatives which you don't see coming up again, which is true in this number two[ph] positive number. And that also means that therefore we believe that these levels are sustainable going forward because we will continue and obtain our strategy.

Darryl --

## Q - Francois Boissin {BIO 16045021 <GO>}

And sorry, just to follow up on that, do you think there is more to come, i.e. are you able to further increase margins or do you think that at some point in time you might see pressure from competitors?

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

What you see is that margins this specific quarter have clearly have had a benefit from increased margins in variable annuity. Market conditions there have helped a bit, that's clear, because when rates go up and volatility goes down you get more room in pricing for the guarantees.

So we will continue with our strategy of only selling products that add value to our customers and add value to us. We have effectively taken a lot of measures already in the past. The most important measures, we have taken them. I've been very clear in previous quarters about universal life, re-pricing and withdrawing products.

What I can say today is that in the value of new business, which is as presented, most of the negatives are those items and those product lines that have created negative value have now been eliminated. So therefore this is a sustainable level, but you should not be expecting the same rate of increases. It will now very much depend on the volume of sales.

Darryl?

## Q - Francois Boissin {BIO 16045021 <GO>}

Thank you.

## A - Darryl Button {BIO 7089946 <GO>}

Yes, on the -- let me give you -- on the two big general accounts in the US our back-book yields are about 470 right now and new money yields going on in the books are somewhere in the 4.25 to 4.5 range.

In The Netherlands back-book yield is 370. It's about a point lower. And new money yields going into The Netherlands is right on top of that, about 370.

## Q - Francois Boissin {BIO 16045021 <GO>}

Okay. And in terms of the breakdown, maybe in the US in terms of your new investments?

## A - Darryl Button {BIO 7089946 <GO>}

It's high-grade corporate credit. It's also some long sovereign, long US treasuries, high-grade corporate credit, a little bit of structured assets as well. I would say the new money mix looks very similar to the in-force portfolio.

## Q - Francois Boissin {BIO 16045021 <GO>}

Okay. Thank you, very much.

## A - Darryl Button {BIO 7089946 <GO>}

Yes.

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

So I'd like to thank you for attending this conference call. Again I know it's a busy day. Thank you, very much. And I'd like to open the floor now to the press for any remaining questions you might have.

## Operator

We will now take questions from the media. (Operator Instructions) Maud van Gaal.

## Q - Maud van Gaal

Yes, hi. This is Maud van Gaal from Bloomberg News. I had a question with regards to your comments on Solvency 2 an also your remark on Solvency 1.5 in the press release. I was wondering what comments have you submitted to the consultation if any?

And if you are more optimistic on Solvency 2, would that make you urge that government not to go ahead with 1.5 or the Central Bank? Thank you.

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

Let me start with Solvency 2. As I just said in the call and as you know, I'm pretty closely involved in the whole process with the industry. I believe that we are at the point that we have never been closer to having the different parties that need to be involved and come to a conclusion.

There's still a number of outstanding points, but I think everybody now knows that if by the end of November there is no agreement then the deadline of --- sorry, I would say the target date of January 1, 2016 becomes really impossible. Even if in November an agreement is reached by -- on the big items, there still is a lot of work to be done and it is questionable to what extent that can be done within the timeframe. But I believe that there is now a very clear desire and determination from all the parties involved to come to an agreement to set this aside and to move forward.

Darryl, you've been involved with Solvency 1 and the Dutch Central Bank, so would you like to comment?

## A - Darryl Button {BIO 7089946 <GO>}

Yes. Solvency 1.5 applies to our Dutch business only. It is a stop-gap measure, if you will, that here in The Netherlands are implementing while they are waiting for Solvency 2. It works off the Solvency 1 framework. It basically stress tests the Solvency 1 framework and then creates a corridor approach where the DNB, the regulator here in Holland, has approval rights over whether companies can pay dividends or not.

We've been working with them on the stress testing. We've submitted all of that. They have come back here recently. They went through a calibration exercise to calibrate it. Their intention is not to change the overall capitalization for the industry as a whole, but it may have individual impacts. We are fairly confident we come out on the strong end in the local market so in terms of that recalibration process we've faired pretty well. So we're -- that's leading behind the comments where we do not expect Solvency 1.5 to have a unique impact to Aegon.

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

Thank you, Maud.

### Operator

(Operator Instructions) Thank you. I'd like to hand the call back to the host. There appear to be no further questions.

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

Many thanks to all of you that have attended and wish you a good day. Goodbye.

### Operator

Thank you, ladies and gentlemen. This concludes today's Aegon Third Quarter 2013 results conference call. Thank you for participating. You may now disconnect.