Q1 2014 Earnings Call

Company Participants

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

Other Participants

- Ashik Musaddi, Analyst
- David T. Andrich, Analyst
- Farquhar C. Murray, Analyst
- François Boissin, Analyst
- Maarten Altena, Analyst
- Michael van Wegen, Analyst
- Nick Holmes, Analyst
- William H. Elderkin, Analyst
- William S. Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Aegon First Quarter 2014 Results Call on the 15th of May. Throughout today's recorded presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions.

I will now hand over the conference over to Willem van den Berg. Please go ahead.

Willem van den Berg {BIO 15203834 <GO>}

Good morning, and thank you for joining us for this conference call on Aegon's first quarter 2014 results. We're very much aware that this is a busy day for you, as many companies are reporting at the same time. And, therefore, we'll keep it short. We would appreciate it if you take a moment to review our disclaimer on forward-looking statements which is at the back of this presentation.

Now our CEO, Alex Wynaendts, will share his views on the highlights of this quarter's performance and our CFO, Darryl Button, is joining him to answer your questions.

Alex, please share your thoughts.

Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Thank you, and good morning, everyone. I will indeed provide you this time with a very short overview of our first quarter before we can go straight into Q&As.

This quarter, we have again delivered a strong set of results, maintaining the positive momentum we've been seeing in the previous quarters. Underlying earnings were strong as a result of further growth of our business and supported by higher equity markets and lower financing cost. Earnings from the Americas included seasonal unfavorable mortality, which has been a common theme across the U.S. life industry this quarter. The impact amounted to €20 million, but was offset by strong results from our other units.

The highlight this quarter are strong growth deposits, which increased by 35% and were higher in each of our business units. The U.S. pension deposits were up strongly on plan takeovers, growing employee participation and higher contributions. Our U.S. variable annuity deposits also increased substantially. I am particularly pleased to report that this quarter, 60% of our variable annuity deposits were invested in Aegon managed funds.

In our asset management business, we achieved exceptionally strong retail fund sales in both the UK and China. The deposits were affected by two exceptional items: following the change in regulation in Poland, we've had to transfer €1.5 billion in pension fund assets to the Polish government; and secondly, one of our institutional clients in UK replaced a €3 billion low-margin overlay program by a much higher margin, but smaller investment mandate. I'm convinced the high-level sales we're seeing this quarter is the result of the ongoing improvement to our products, our service levels and operations.

Consistent with our strategy, we continue to execute on our objective to reduce outstanding debt. We will achieve our objective to reach a leverage ratio of 26% to 30% and a fixed charge coverage of six times to eight times by the end of this year. And as a result, our funding cost will further decrease in 2014, which improves our cash flows and has a positive impact on our return on equity.

At the same time, we continued to make the necessary investments to accelerate use of digital technology in order to get closer to our customers, while enhancing efficiencies across our organization. The recent launch of Retiready, our direct-to-consumer offering in the UK, is a good example of this. Retiready's online proposition allows customers to easily measure their retirement readiness and provides them with simple solutions to help customers reach their retirement goals.

I'm also proud to share with you the good results from Aegon's global employee survey, which showed that employees are more engaged with our strategy and more empowered to contribute to the company's success. Actual survey results continue to improve compared to previous years, and Aegon is now consistently tracking above the financial services sector and at the high-end of the high-performance norm for enablement.

Having engaged and enabled employees is at the heart of our strategy to transform our company. And this is why our management team is excited by the prospects for our business going forward. We believe that the benefits of the actions we have taken, together with the strong quarterly results and the strength of our capital position, provides us with a clear competitive advantage in our chosen markets, allowing us to gain new and retain existing customers that place their trust in Aegon.

Before we go into Q&As, I would like to say a few words on Solvency II. Although it's now become clear that Solvency II will be implemented by January 1, 2016, there are still many key details on the implementation measures that need to be clarified before we can share with you more numbers.

During our Analyst and Investor Conference, which we'll be hosting in New York on June 25, we will provide you with an update. Please scan the QR code on slide 6 for more detailed information on the A&I conference and to register, or contact Investor Relations. We look forward to seeing you there, and we're now happy to take your questions. Thank you.

Q&A

Operator

Thank you, sir. Your questions will be polled in the order they're received. The first question comes from Farquhar Murray of Autonomous. Please go ahead.

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

Willem, thanks for being brief there. Just two questions, if I may. Firstly on the unfavorable seasonality, that figure of $27 million in the first quarter, is that benchmarked against normal experience in 1Q? I'm just trying to understand whether we should expect that $27 million to roll out Q-on-Q, or possibly a bit more, given that we get a seasonality component on top of it?

And then secondly, on the normalized free cash flow figure of €305 million for the quarter, within this you've made a positive adjustment of €22 million for one-time items. Can I just confirm that that one-time adjustment is essentially normalizing the AXXX solution? And when might we expect that solution to come through in the actual figures? I think last time you were indicating some point in 2014. I just wondered where you were there. Thanks.

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

Yeah. Hey, Farquhar. It's Darryl. Let me respond to those. On the mortality, no, it's not benchmarked to a seasonal Q1 expectation. It really is benchmarked relative to a level expectation for the year. So we look at that $27 million as the seasonal component. So I'd look for that to actually reverse as we go throughout the rest of the year, if our hypothesis on the seasonality is correct.

On your second question on the operational free cash flow. Yeah. We have tried to normalize out the additional strain that comes from the XXX business in the U.S., and we are looking to do some financing here in the second quarter. And so that should come into our operational free cash flows in the second quarter, when we get that financing done.

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

And just as a follow-on there, once you get that solution, do we get the backlog coming through as well?

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

Yeah. So basically, we've been experiencing somewhere around $30 million, $40 million per quarter of additional strain; and we have a backlog of about, let's call it, eight quarters that we're looking to finance. And so, we should see that come through when we get that done.

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

Okay, great. Thanks a lot.

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

Yeah.

Operator

The next question comes from David Andrich of Morgan Stanley. Please go ahead.

Q - David T. Andrich {BIO 15414075 <GO>}

Hi. Good morning. Two questions on my side. First of all, I was just wondering if you could give us a brief update on the progress in the UK business, particularly related to free cash flow expectations for 2015? And I was just wondering, in terms of the U.S. business and the (8:00) program, when should we see I guess kind of clear impact in terms of higher retention and more retained or reduced outflows?

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

Thank you. On the UK, I think we've been consistent with saying that we are targeting cash flow - operating cash flow in the UK by 2015 of £150 million and £200 million; and we are on target to achieving the cash flow.

In terms of the U.S. market, (8:32) what we see is that there is a lot of opportunity actually to capture flows from customers that retire and maintain them in our system. We've put in place a number of initiatives, a number of organizational changes. And I think that what we're seeing right now is at around - a bit less than 10% of maturing retirement money stays within our system. And it's obvious that we are targeting to increase that percentage from 10% to at least 30%.

You will get much more around this theme in the A&I conference which we'll be holding in New York. Actually it will be very much central to what the strategy of the U.S. will be. Really hope you will be there, so we can give more color and much more numbers there. But this is at the heart of our strategy.

Q - David T. Andrich {BIO 15414075 <GO>}

Okay. Thank you very much.

Operator

And the next question comes from Ashik Musaddi of JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

(9:33-09:40) can you give us some color around what's happening with equivalence and what DNBs view on equivalence. Are they happy for you to apply equivalence assuming EIOPA allows for that. So that's the first thing.

And secondly, on the UK new business, value under market consistent basis declined significantly and this keeps on declining. So can you give us some color on the absolute basis point margin that you're getting on the new floors on UK business. Yeah. These questions will be very helpful. Thank you.

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

Ashik, let me take the first question on equivalence. As you know, this has been a theme which we have - discussing with you many times. For Aegon it's clear that we have the need for equivalence. It's very clear also for our regulator. And if you now see the progress which has been made between European Commission, European Parliament, EIOPA, it is clear that equivalence is going to be accepted and is going to be a part as we'll be looking at Solvency II going forward.

Now there's still a number of details to be worked out. We need to understand exactly the implementation of the deduction and aggregation, but we're working through this with our regulator; and our regulator is clearly supportive and understands the need for it. So I'm confident that we will come out within - whatever period, next month or certainly - hopefully, well ahead of implementation with clarity around how we will implement this equivalence. But there's no doubt that, that will be put in place.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you. That's very helpful.

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

Darryl, on the UK?

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

Yeah. Ashik, it's Darryl. On the MCVNB for the UK, it's really a couple of things going on right now. We have some negatives coming into the calculation from auto enrollment right now which is effectively as we're going into auto enrollment and looking at some of the smaller amounts there that we're going to have to process and put on to the schemes that it's actually coming on, on a negative value. And that's a short-term phenomenon that I would almost call it an adjustment.

So obviously a downward economic adjustment to some of the existing schemes that we have. So we have to work through that period, and that's going to be with us in the short-term. The other issue really is just the platform, and we're just not of scale yet on the platform.

So on the margin we don't use greenfield status or the like, if you will, which means that we use the full expense base when valuing the business that's going on the platform. So until we get up to scale, the margins are going to be really small.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No. I agree. I mean that's clear that you have upfront cost and all. That's why margins are a bit depressed, but how should we think about your absolute revenue margin? I mean what basis points are you charging on your auto enrollment or on your platform? So any color on that would be good. Thanks.

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

Yeah. Well, on the platform itself, we're in the 40 basis points to 50 basis points range on the revenue. Obviously the market is shaking itself out with all the changes that we've gone through recently. So I would say it's still a market that's finding itself on that front, and we still continue to optimize as we see what competitors are doing. So that's where we're at now, and we continue to look at that going forward.

And then in terms of bottom line margin, it's really a function of the scale that I mentioned before and it's really going to be another two years to three years before we get the platform to where we need to be from a scale perspective.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Thank you.

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

Yeah.

Operator

The next question comes from William Hawkins of KBW. Please go ahead.

Q - William S. Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much, and thanks from my side for being brief at the open as well. Two questions on the UK, please. Your platform funds for £1.6 billion versus £1.3 billion, but can you just tell us what was the flow impact in that increase in the first quarter?

And then secondly, could you give us any kind of discussion of what you see as being any potential impact from the tax changes that have been announced through this quarter? Is that generating any risks or any opportunities for you or is it just business as usual? Thanks.

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

Yeah. Hi, Will. On the platform flow, we are running about £100 million a month, which means it was about £300 million for the quarter in the platform. And I apologize, but I missed your last question on tax, I think it was.

Q - William S. Hawkins {BIO 1822411 <GO>}

Yeah. Just with the tax changes having a big impact on the wider annuity market, I'm wondering if that's having any impact on you guys in any part of the business in the UK?

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

Yeah. So in terms of the overall budget change in terms on the annuity, from a annuity strategy perspective, we think that overall annuity sales are going to be down probably in the neighborhood of 50%. We're seeing something in the neighborhood of, I think, we saw 20%, 30% now. But we think that that's good to drift up to 50% down by the end of the year.

Q - William S. Hawkins {BIO 1822411 <GO>}

And it doesn't make you guys think that there's anything further that needs to be thought about the strategy, you're still happy with your strategy?

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

Well, obviously, from a strategy perspective, we think a lot of these flows are going to come over into the drawdown part of the market; and that's where the oil (15:10) platform and the drawdown strategy that we have on the platform. And we are working on another drawdown product to put on the platform next year, a guaranteed drawdown product to go with the drawdown product that we have now.

So we think we're very well-positioned, and will be positioned, for that switch of consumer flows that are going to happen. So it's really in the heart of our strategy. So we feel okay with the changes in that regard.

Q - William S. Hawkins {BIO 1822411 <GO>}

Okay. Cool. Thank you.

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

Yeah.

Operator

The next question comes from the line of Michael van Wegen of Bank of America Merrill Lynch. Please go ahead.

Q - Michael van Wegen {BIO 6435238 <GO>}

Yeah. Morning. It's Michael van Wegen from Bank of America Merrill Lynch. I'm afraid I have to go back to the UK as well. Two questions there; or three. First of all, your persistency in the pension business in the UK recovered very well in Q1. I guess it's now closer to normalized levels. Is that something you expect to continue, or what's the risk of seeing, again, volatility like we've seen in Q4? And that's question number one.

Question number two on UK cash flow. Can you disclose what the cash flow for the UK operations was in Q1, both as an actual number and if you adjust for things like securitization, et cetera?

And the third question would be on your strategy in the UK. You pointed out the 40 basis point to 50 basis point fees on the platform business. I think that, in the business plan, it's assumed that the overall margin doesn't decline as much, and that's partly driven by, for example, better margin on drawdown products. Can you talk a little bit about how the margins on drawdown products compare with the normal platform business, and how you see AUMs developing for both the platform business and the drawdown product? Thank you.

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

Yeah. Michael, let me take the first two questions and Alex can take the third. Persistency in the UK, yeah, it has come to what we think is a more normalized level. So obviously, it will still fluctuate a little bit from here, but I think it is a more sustainable number that we're seeing. And so we'll continue to watch that throughout the year.

UK cash flow, we're not currently disclosing the cash flow by pieces. What I can say is, back to what I've said earlier, is that I expect UK cash flow to be relatively small this year in 2014, and that's a function of the investments we continue to make into Retiready and the platform, combined with the securitization, combined with the lack of scale on the platform and the expense reduction programs we have under way. So, 2014, I expect to - and we are seeing a relatively modest, small contribution from the UK, and I expect that to step change next year.

On the - Alex, do you want to...

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

Yeah. On our strategy in the UK, Michael, in response to one of the previous questions about, what are the current margins we're making on the platform, keep in mind that we are now - we're very much focusing on workplace, so that's corporate pensions. And we've been focusing on what we call advised customers, which is the higher end of the market. That also explains why the margins on the platform are between 40% and 50%.

What is now going to kick in with Retiready is much more the retail part of it, the non-advised part, and it's clear that the margins in that segment are significantly higher. So when you look over time at the margin on our platform assets, what you need to keep in mind is a different part of the business. So the workplace, the high-end of the market, advise where we have intermediaries, and the growing part of our business that is through the retire platform, the non-advise, the retail business, which will come from our back book, customers that are - orphan customers, customers that have been part of our business for many years, but have not been receiving the kind of service you would expect right now. That will be moved on the platform, but clearly at much higher margins. I think you should be thinking in the range of 80 basis points, which, as you will understand, compares very favorably with very often the kind of margins they are now being paying right now.

What we therefore also hope is that, not only we're converting a business from the back book into the new Retiready on our platform and attract new customers, and that is also - be in the 80% range. So, at the end, the mix will determine what spreads - what margin we'll be getting on the business. And I believe the mix will also be determined very much by how successful we are with Retiready.

We've launched that, and I'm sure you will have seen it. It's been a success in terms of launch. We see now the first customers, but we need a bit of time to get to see the flows and to see how much really are we going to get on that platform. And that will determine at the end the overall mix of the business, and therefore the margins. But that's our strategy going forward in the UK.

Q - Michael van Wegen {BIO 6435238 <GO>}

Thank you.

Operator

The next question comes from Maarten Altena of Mediobanca. Please go ahead.

Q - Maarten Altena {BIO 15898902 <GO>}

Yes. Good morning, gentlemen. Two questions on innovations, and the first one basically following up on the UK as you're rebuilding your UK franchise gradually though. Profits remain subdued, so to say. You currently have some £1.6 billion of platform assets under administration whereas, I guess, you need about £10 million to be breakeven. So could you comment on the expectations of the trajectory, how and when to achieve the breakeven level and whether you see that's achieved purely organically or maybe via acquisitions?

The second one is on innovations in the Netherlands as you have retail initiative, Knab, which does not fully seem to meet expectations. So I was just wondering how much money are you willing to spend on this and what other innovations are you working on in the Netherlands? Thanks.

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

Yeah. On the UK, I'll just repeat what I said earlier. It's going to be two years to three years is our expectation to get to scale on the platform, which we put at somewhere in the £8 billion to £10 billion range that we need to get to. Alex, I think you want to address....

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

Yeah. On the Netherlands – by the way, Maarten, I hope you have become a customer of Knab, because then you probably wouldn't have asked this question. What we see is that we are gaining momentum with Knab in terms of customers. What we see in particular, and that's pleasing, is that those that are customers are very satisfied with it.

We've now launched recently a new initiative to focus on self-employed, the payers for the Dutch people, self-employed, and that actually is gaining quite a lot of traction, which is not surprising, because often the self-employed do more things themself, also financially. And we see actually quite some traction in that part of the market. Having said that, we obviously would have preferred and we would have loved to see this business accelerating quicker and getting much more new customers than what we see right now.

On the other side, we see some good deposits coming to Knab. It is taking time. But what's the most important thing for us is that it positions us in the market as being a innovator, as being a new bank, as being a bank that is really looking after the interest in the customers in the way the customers want to see. And it will take a bit of time, but we are actually confident that this is the right concept, and we're seeing now with the expansion of our scope in the market with self-employed, we see actually quite some traction.

Q - Maarten Altena {BIO 15898902 <GO>}

Okay. Perfect. I'm not yet a Knab customer, but you definitely got my attention (22:47).

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

(22:46).

Operator

The next question comes from William Elderkin of Goldman Sachs. Please go ahead.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. Good morning, everybody. A couple of questions. First of all, on the Dutch business. The commentary on the pension's earnings referred to improved margins on mortgages, I think. I know this can be (23:10). I'm just wondering is that, that level of earnings something we can regard as sustainable. And secondly, same with the Dutch business, when can we expect to see an improvement in those non-life earnings coming through?

Second, back on the UK, I'm afraid. You've quantified the effect of DWP requirements of £20 million to £25 million on annual basis. At what point will we expect to see that effect actually coming into reported earnings?

And then finally, just given the sort of the change in the accounting policies, is that underlying sort of model margin guidance you've provided in the past? Is that still valid or is that something that needs to be updated in due course?

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

Darryl?

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

Yeah. Hey, William. Let me see. I got the first three for sure. I might get you to repeat the fourth one. On the pension earnings in the Netherlands, yeah, I think it is sustainable. We've done some ALM repositioning of some of the assets. A few more of the mortgages have worked their way into the portfolio backing the pensions, and I think that has created the additional earnings. And I do look at that to be a sustainable number going forward.

You asked about non-life in the Netherlands, I think in terms of turnaround, there it has admittedly been a struggle and we have done a lot of work to re-underwrite and re-price that business. Unfortunately, we're still seeing some of the residual claims come through from the storms and the fires that where – we consider to be maybe a little more one-off, if you will, and those did come into the results in the quarter. So I still look for improving results from the Dutch non-life business on the back of re-underwriting and re-pricing.

You asked about the UK DWP, £20 million to £25 million. When? It's effective in 2015. So April of 15, I think it is when we have this – basically implement that. So this will be a second half 2015 effect that we'll start to see come through the numbers. Between now and then, we'll obviously be sharpening our pencil and fine tuning this number, but £20 million, £25 million is our best estimate at this point. Fourth question, I apologize I missed it. (25:32).

Q - William S. Hawkins {BIO 1822411 <GO>}

The question was you've given some model about margin guidance, particularly for the U.S. business in the past. I was just wondering given the change in accounting policies, are those sort of model guidance levels still valid or is that something that needs to be revisited?

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

I'll tell you what, we are taking a look at that right now. We'll probably talk about it at the A&I in June. I do know that on the VA side a few - because the VA business is growing and the new DAC policy we have. That does create some additional earnings strain that wasn't there before. So that's why the margin is a little bit lower this quarter at I think 70 basis points, 75 basis point, somewhere in there. So we're taking a look at that. That's a function of growth and the new DAC policy.

On the pension side, we are seeing a bit of a trend on the pension side in the U.S. for - some of the larger cases are coming in on more of a participant charge as opposed to a AUM charge. That puts a little downward pressure on the margin, if you will, but obviously doesn't impact their earnings growth trajectory. So the U.S. is going to address that issue as well and the right way to look at the margin metrics in there; and they're going to adjust that in June as well.

Q - William S. Hawkins {BIO 1822411 <GO>}

Thank you.

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

Yeah.

Operator

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

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you very much. Yes, two questions. First one is on the U.S. With your very strong growth in variable annuities, I wondered, could you tell us a bit more about how your product compares with the competition? And I guess what I'm getting at is that, we've seen some of the larger players backing away, and I wondered, is your product now looking relatively more aggressive, or would you say that it's still at the lower end of the risk spectrum, which I think is something that you've been quite proud of?

Then the second question is on the UK. Just, I think we've covered annuities, but I wondered if you could comment on the pension cap and also the proposals for examination of run-off business, whether there'll be any effects from those? Thank you.

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

Nick, on the U.S, I'll be brief here, because we'll address it in really much more detail in our conference in June. We hope to see you there. What we see is that the market actually has been attractive for us, we have been (28:03) returns on equity close to 20%. And recently, we have seen a little bit pressure - more pressure, but still allowing us to have very attractive returns.

In terms of products and developments, and I really would like to defer to June so you get a complete picture. But you know our strategy, we've been consistent in ensuring that we get products that are right for customers, but also at the same time, are the correct risk profile for Aegon. We'll continue to do so.

Q - Nick Holmes {BIO 3387435 <GO>}

Yes.

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

In terms of UK, is there anything you want to add on what you just said, Darryl?

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

Well, the pension cap is the DWP issue that I mentioned earlier, Nick. So our corporate book does have some exposure to these caps, and we have sized that at an earnings impact of about £20 million to £25 million per year, effective April of next year. But we'll have - as I mentioned before, we're still doing some, as we get closer to implementation. There's many moving pieces behind it as well. We'll update our guidance as we go, but that's our best number for now.

Q - Nick Holmes {BIO 3387435 <GO>}

And is there any quick comment on the run-off proposal? The FCA has said that it will look at run-off books, look at treatment of customers. Any concerns for you in that respect?

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

No. It's too early for us to comment on that. We don't think that there's an issue, but obviously we wait and we see and we will participate in the review. And we'll update as you know more. But at this point, we don't think that there's anything to communicate.

Q - Nick Holmes {BIO 3387435 <GO>}

That's great. Thank you very much.

Operator

The next question comes from François Boissin of Exane BNP Paribas. Please go ahead.

Q - François Boissin

Yeah. Good morning, gentlemen. Two questions, please. First one on the Dutch pension fund buyout market. Can you give us your views of what's going on there? And maybe can you elaborate a bit on the past (30:03) deals that you might have achieved in the pricing conditions?

And the second question is on Solvency II and economic solvency, when do you guys plan to disclose economic solvency or probably for (30:15) Solvency II numbers? And are there any areas of concerns currently regarding the calibration of the solvency capital requirement? Thank you.

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

François, thank you for your questions. In relation to the pension fund business, as you know, there's a big pipeline, in the sense that there's many companies that have pension funds; and clearly those pension funds are too small, or is not sustainable for them to run them on an independent basis.

We see clearly an improvement in the market, and that means that pension funds, therefore, are getting to the levels that they can effectively be transferred and transfer the liability to insurance companies like ourselves. We are well-positioned in that sector. We have a strong balance sheet. I think it's important too.

And as such, I think we'll continue to see the flow. But this flow is not regular, so you will see certain quarters get bigger contracts, other quarters less. It's not going to be regular. But the trend is there and we're well-positioned, not only in the transfer of liabilities, but equally strongly positioned in the whole, what we call the PPI business, which is effectively a kind of 401(k), and is probably the best - easiest comparison for all of you, part of the pension sector, which is truly a defined contribution, and where the investment risk is for the account of the employees.

That's a segment where we are participating also in, and we see continuous good flows in there, and we'll continue to report it. So I'm pretty optimistic on that part of the business. As you know, there are not that many players active in that market. That means, therefore, we're also able to maintain our pricing discipline, and that's equally important.

In terms of Solvency II, I...

Q - François Boissin

Sorry about that, just a follow-up question on the pension fund buyout. Do you disclose any figures on the deals you achieved in the past 12 months?

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

No. We are not explicitly giving you deals. In some cases deals are important for the company, and then there's a press release. But in general, we do not give the names of the companies. What I was trying to say is that there is a healthy flow. There's a big pipeline. But, again, these transactions are not taking place on a regular basis quarter-by-quarter. It's somewhat a bit lumpy, but there is a good flow. And more important, as I said, we're able to maintain our pricing discipline, and that's important; and that's because the market, effectively, is only limited to a very few number of players.

Q - François Boissin

Okay. So pricing discipline in terms of IRR or in terms of is it like 10%, 12%? What's your threshold there?

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

So, Darryl, do you want to comment on this?

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

Yeah. I mean our pricing threshold is – we have economic pricing and we look for 1,000 basis points over swaps on a pre-tax basis, and that's our minimum threshold. And then we look to actually get a spread over and above that, but that's our walkaway number.

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

Yeah. And that gets reflected in our MCVNB, which is positive on the pension business. And I think this is an achievement actually. Not always been the case. The market has been very aggressive in the past, but we see now that we're able to maintain a pricing discipline.

In terms of Solvency II, unfortunately, there's not much more I can say than I said in the introduction. The one thing we now know is that we should count on the 1st of January, 2016. We do know there's a lot of outstanding details in implementation. We also know that these details could have quite a varying impact of which we are not at all, at this point in time, clear about what the ranges are. I think that's also clear to European Commission on one side, the Parliament, the EIOPA, that it is important to come to conclusion relatively soon if you want to be able to implement this at the 1st of January, 2016.

The important one that was raised earlier for Aegon, obviously, is we need to get clarity around how we implement deduction and aggregation in order to get equivalence for the U.S. But again, with all the stakeholders involved and our regulator understanding the importance of it, I have every confidence that we'll get to a workable solution within the time fame.

Q - François Boissin

Okay. That's helpful. And in terms of calendar, do you expect to bring up new numbers to the market, I don't know when, H2 2015 or do you expect 2016 as the first (34:34) we can expect numbers from you guidance?

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

As I said, François, we will, based on what we know at that time, try to give you a bit more clarity on what we will be doing in our June conference. Today, it's too early. So in June, hopefully, we'll be able to say more. But again it depends on others, not too much on ourselves. So we'll give you more clarity there.

Q - François Boissin

Okay. Thank you very much indeed.

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

Thank you.

Operator

Thank you. That was the final analyst question. Thank you. The next question comes from (35:16) of Dow Jones. Please go ahead.

Yes. Good morning. One question following up on the price discipline, could you explain to me what this entails, 1,000 basis points over swaps?

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

Yeah. So when we look at the cost of capital that we build into our economic models, we price everything on an economic basis, which means we use forward curves and swap curves. We don't use rising interest rates and we don't use long-term economic or long-term equity return assumptions. When we make market assumptions, we use forward curves.

When we build in cost of capital margins into the risk components of our pricing, we build in cost of capital equal to 1,000 basis points or 10% plus swaps on a pre-tax basis, and that represents the floor of our pricing and that's the basis for our MCVNB reporting. And then we set targets to achieve that or better. So that's what I mean by a floor level. In many cases, in many products, we are able to achieve numbers in excess of that.

Q - Operator

Okay. All right. Okay. Thanks.

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

Yeah.

Operator

Thank you. That was the final question. Are there any further points you wish to raise?

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

Thank you very much for being in the call, and we also actually enjoyed the setting, short introduction, Q&As, and we obviously all look forward to seeing you in New York. And have a great day and a busy day. Bye-bye.

Operator

Thank you. This concludes the Aegon first quarter 2014 results call. Thank you for participating. You may now disconnect.