# Investor and Analyst Meeting

## Company Participants

- Jan Willem Weidema, Head-Investor Relations
- Matthew James Rider, Chief Financial Officer

## MANAGEMENT DISCUSSION SECTION

### Jan Willem Weidema {BIO 15133400 <GO>}

Good afternoon, everyone, and thanks for joining us for this interactive webinar. We are really excited to have so many analysts and investors listening in especially since this is the first time we've ever held a webinar. Matt Rider, Aegon's CFO, will shortly present an update on the company's financial transformation and how we manage and deploy capital.

During the presentation, you have the opportunity to ask questions via the Orange Ask a Question button on your screen. Following the presentation, I will put as many of these questions to Matt as the time allows for during the Q&A session.

Last but not least, today's presentation may include forward-looking statements. So as always, please take a moment to review the disclaimer in the back of the presentation.

And with that, it's my pleasure to hand it over to Matt.

### Matthew James Rider {BIO 20002664 <GO>}

Good afternoon, everyone. Thank you all for your continued interest in Aegon and for joining us for today's webinar. As I've now been in the CFO role for over a year, this is the perfect time for me to reflect on the things that we've achieved so far and provide you with an update on the financial transformation that we have embarked upon. Through this transformation, we are becoming a more efficient and financially predictable company that has a strong capital position and improved and it controls environment and higher and more diversified remittances.

In my first few months as CFO of Aegon, our focus was on successfully improving the capital position of the business and enhancing the financial performance across the group. Today, all of our main units are in much better shape than they've been in recent years, and this will enable us to significantly increase our regular net remittances in 2018.

Given the continued regulatory account and accounting changes, we decided to accelerate the finance transformation program that had already begun. A good example of this is our model validation and conversion program.

Another key change for us was the rollout of our new capital management policy in August of last year, which included updated capital target zones for each unit. As I'll outline later, all of our units are expected to remain well within these new target zones despite the anticipated changes in the coming years. While local regulatory capital regimes are important for us, we manage our capital within a multi-dimensional framework.

In the medium-term, we expect to be able to maintain capital at the upper end of our target zones, maintain adequate cash in the holding, while maintaining our leverage ratio down. This will allow us to focus on optimizing and strongly growing our capital generation. What's more, we are securing future capital generation by investing in the growth of our business.

Let me now take you through the main achievements and priorities from a finance perspective. On slide 4, you can see an overview of what we have done over the last 18 months as part of our financial transformation program. In 2017, we significantly improved our group Solvency II ratio to 201%, which represents a 44-percentage-point increase over the prior year. This level of capitalization provides us with a robust buffer, protecting both our policyholders and our business, for instance, in the event of a sharp drop in the financial markets.

Recent divestments have increased our financial flexibility. For example, the sale of part of our U.S. runoff businesses and UMG in the Netherlands freed up almost €1 billion in capital. Another more recent example is the sale of our Hungarian mortgage company. We highlighted this as non-core at our January 2016 Analyst and Investor Day and recently succeeded in divesting this business with no material impacts in our results.

Management actions have also helped such as moving to fee and protection businesses, reducing expenses and optimizing our risk profile. These types of actions enabled us to successfully recapitalize our Dutch business and turn around our UK operations, and I am pleased to confirm that Aegon in the Netherlands and the UK will upstream dividends in the first half of this year of €100 million and £50 million, respectively.

At the same time, we reached an agreement with our Dutch supervisor, DNB, on a number of open issues for calculating our solvency position, including the conversion factor of our U.S. business. You may have also noticed that our fair value items have improved significantly. This is the result of adjustments made to hedging programs to reduce P&L volatility, while continuing to protect our capital position.

As part of the management of our hedging programs, we focus on a combination of metrics, including capital, IFRS earnings and liquidity. Furthermore, we have improved our internal processes, which has enabled us to enhance our disclosures around Solvency II capital and capital generation.

Let's now turn to slide 5, which lays out our main priorities for the finance organization. These go hand-in-hand with the strategic and cultural transformation going on across our company. We started the financial transformation with our model validation and conversion program in 2014. We are still on this journey and have accelerated this transformation in light of the implementation of IFRS 9 and 17, something I will discuss in more detail later.

Modernizing our models is part of this and improves the financial control of our business. It also allows for streamlining of processes, increased automation and enhanced control. Another key priority is our enhanced – to enhance our disclosures by better aligning our disclosures with how we manage the business, we aim to provide enhanced insights into the growth potential of our businesses particularly in Europe. These changes will enable you to clearly see the performance of our UK platform business and our Dutch banking and service businesses.

Furthermore, we want to maintain a solid financial profile by tightly managing our capital position, which I'll cover in the second half of my presentation. Our focus here is on improving sustainable capital generation in the units to further increase remittances to the group. Crucial to this is remaining prudent with respect to leverage as this protects our credit ratings and increases financial flexibility. Lastly, we are making strong progress on our 2018 financial targets. While new business growth is a key contributor to this, the active management of in-force business is also critical.

Since joining Aegon, I've been impressed with the model validation program that was started prior to my arrival. Through this program, we have made several critical changes to the way we model our most complex businesses. As most of you are aware, the original program started out focused on auditing our models, including reviewing the documentation and processes, as well as the control environment around these things.

Since then, our model validation program has transitioned from a project-based program to one that is embedded into the business-as-usual processes. Aside from this, we took the decision to embark on a financial and actuarial transformation program to streamline processes and increase automation, while enhancing the IT control environment.

As part of this program, we decided to bring down the number of actuarial valuation engine substantially. Some parts of our business still need to be converted on to one of the new valuation platforms. Having said that, our most complex books of business, including variable annuities, universal life with secondary guarantees, and long-term care are already on their destination valuation platforms.

Like many aspects of our finance transformation, IFRS 17 has accelerated the pace at which we plan to convert the remaining models. As a result, we expect to complete all model conversions within the next two years.

Although we cannot exclude positive or negative impacts resulting from these conversions, the likelihood of a noticeable effect on earnings over the conversion horizon is less given the lower complexity of these models. Overall, the program continues to drive increased efficiency across the business, thereby enhancing the control framework. This will lay a solid foundation for the successful implementation of IFRS 17.

Moving on to slide 7, long-term care is one of the businesses that already went through the model conversion. This enhanced modeling capability that we have developed enables us to model the business at a very granular level. Combined with our disciplined experience, monitoring, and regular assumption updates, this allows us to reflect up-to-date experience accurately in our provisioning.

High-data quality is a crucial importance to effectively pursue rate increases based on actuarially justified outcomes. This has led to positive outcomes on our current rate increase program, which was initiated in 2016. Aegon started to request approval for rate increases on long-term care business going all the way back to 2002 and used this as an important way to manage the profitability of our book of business.

We have worked with others in the industry, the states and the NAIC leadership to create a more equitable and predictable environment for both carriers and our customers, assuring the continued ability for companies to fulfill their obligations as well as to provide flexibility and options to consumers when rate increases are necessary.

When we began this program, we set out to get approval for rate increases, representing a net present value of $1.1 billion on an IFRS basis. So far, we have realized a total of approximately $800 million worth of premium increases. This means we are still expecting to achieve a further $300 million of rate increases as part of this program. It also means that we have not reflected anything in our reserves for programs beyond the one we are currently executing successfully.

While we have been on balance successful at receiving approvals from most of our important states, we still have approvals to obtain about 25% of the program. However, we are confident that we will be able to get the remaining $300 million. The combined approved and pending rate increases reduce the amount of IFRS reserves we need to hold for this business, as we're allowed to recognize the benefit of higher future premiums.

Our decision to hedge interest rates in 2002 was another key management action to protect the profitability of this business at the time we entered into forward starting swaps to hedge the future cash flows of our long-term care business. By doing this, we were able to lock in materially higher investment returns of approximately 7% on our long-term care portfolio for well over the next 20 years, which is reflected under IFRS.

Had we not executed these management actions, we would be holding approximately $3.4 billion of additional IFRS reserves. These numbers are all based on our own exposures after recognizing reinsurance coverage on approximately 20% of our business.

On the next slide, I'll provide you with more detailed information on the claims development for our long-term care business. We tracked the experience on our long-term care business on a monthly basis and review the long-term care assumptions annually. Over the last two years, our long-term care experience under IFRS has tracked well against management's best estimate. The fact that our experience is tracking our assumptions closely is reflected in the assumption review that we are currently undertaking. Based on the work done so far, we have no indications there will be any material impact on our IFRS earnings from this year's long-term care assumption review.

The graph on the left shows that our actual to expected claims ratio has been close to 100% since we completed a comprehensive review of our long-term care business back in 2016 with our morbidity results being the main driver of actual to expected results. We regard the IFRS results as the leading indicator of the health of our long-term care book as they reflect the most up-to-date assumptions. It's most important to keep in mind that there are key difference between IFRS and statutory reserves. IFRS enables us to use best estimates, while on a statutory basis the majority of our assumptions are locked in at the point-of-sale or prescribed.

This does not necessary align with our best estimate assumptions. We, for instance, have on average a more conservative claim termination and mortality assumptions on an IFRS basis than on a statutory basis. The more conservative assumptions result in a lower actual to expected ratio on an IFRS basis.

These are just two examples explaining the differences between the IFRS and stat actual to expected claims ratio. Despite the elevated claims experience on a statutory basis, we continue to have adequate reserves supported by the aforementioned rate increases and investment returns. If experience continues to track well against our management best estimates, then we would not expect any impact on future capital generation.

Let's move on to the implementation of IFRS 9 and 17 on slide 9. These standards are aimed at addressing shortcomings of the current IFRS principles. While there are still several outstanding items needing clarification around the rules, we're actively engaged with all relevant parties to find resolutions to these open items.

Under the current IFRS standards, a mix of different local generally accepted accounting principles are used for the valuation of liabilities. This limits comparability between insurers. Conversely, the new standards will lead to increased harmonization across the European insurance industry.

With the move to a fair value approach, the forthcoming IFRS regime will move closer to how we look at the business, provide greater insight in the sources of profit, and will make the IFRS balance sheet more meaningful.

It will also significantly impact disclosures. However, the new IFRS standards allow insurers to make different choices and interpretations, which may limit comparability between companies. In making these choices, we aim to align with emerging industry practice and to be able to explain results in an intuitive way. At the same time, we will consider the trade-off between operational simplicity and optimization of the outcomes. By doing so, we aim to tightly manage the implementation cost and timelines.

We're currently going through a diligent process to estimate the accounting impact of IFRS 9 and 17 on our financials and we'll provide more guidance as we get closer to the 2021 implementation date. Given the more market consistent nature of these standards, our IFRS equity will likely become a bit more volatile and could potentially be lower. The latter would be offset, of course, by higher future earnings.

In the meantime, we want to continue providing the investment community with the most meaningful and relevant disclosures possible as I'll highlight on the next slide. I realize that reporting changes are not popular and create additional work for the investment community. However, accounting rules require us to align reporting with how we manage the business. The reporting changes we're announcing today reflect the significant changes of our business has undergone and we continue to transform across our businesses.

In the Netherlands, we're aligning reporting with legal entities. This is the way we financially manage the business. It also allows us to put a spotlight on the Dutch banking and service businesses, which are important growth drivers in the Netherlands. In addition, we're aligning the way we account for our alternative investments and consumer loans in the Netherlands with how we do so in the Americas. Management's best estimate for returns on alternative assets and consumer loans will be taken through underlying earnings going forward with over or underperformance included in below the line items.

On balance, this would have led to a modest increase in the 2017 underlying earnings of Aegon in the Netherlands as the higher return on real estate assets will partially be offset by the required provision for anticipated impairments on consumer loans.

On the next slide, let me quickly highlight the reporting changes for the U.S. and the UK. A change that we will make prospectively is the way we allocate expenses in the U.S. Following the transformation of Transamerica and to better reflect the expense savings program, we've reassessed the allocation of expenses by line of business. This change does not impact overall earnings, but will lead to a reallocation of profit between the different lines of business. We do not intend to restate 2017 segment results to reflect these changes. You can find a pro-forma 2017 view of the new allocation method in the appendix of this presentation.

A change that will impact all of our business units is the decision to align the scope of our MCVNB reporting with that of peers, which means going forward, we will only report this for our life, pensions and health products.

In the UK, we have taken the decision to split our business between existing business and digital solutions. This is in line with how we have been managing the business for nearly a year now. With our digital solutions business on a standalone basis, it will be far easier for you to closely track the growth trajectory of this important business.

Furthermore, we decided to include the net deposits for the UK institutional business on the platform in gross deposits, reflecting the high turnover nature of this business. The UK, Netherlands and MCVNB reporting changes are reflected in the adjusted financial supplement that was published on our website today. With that I'd now like to move on to capital management and deployment, the core focus of this webinar.

As you can see on slide 13, we are managing our capital position across a multiple of dimensions. The Group Solvency II ratio is generated by rolling up the local ratios under the various local regulatory frameworks. The local regulatory ratios are an important element as this determines the level of remittances coming from the local units. Remittances, in turn, are the main driver of holding excess cash, which is an important consideration for returning capital to shareholders.

In addition, we continue to target a group leverage ratio of 36% (sic) [26%] (00:20:28) to 30%, in part to maintain strong credit ratings. On the next slide, I'll highlight the local regulatory frameworks of our main operating units and potential impacts to these in the medium term.

On slide 14, this shows that our local units are strongly capitalized and that we are able to absorb upcoming known regulatory changes while still allowing us to execute our strategy. We expect that the RBC ratio of our U.S. business will remain above the midpoint of its 350% to 450% target range despite anticipated changes to the framework. Over the coming three years, we expect the NAIC to incorporate the new tax rate into its RBC calculation methodology and to increase asset charges on all assets and implement the recently published new variable annuity framework.

A quick aside on the variable annuity framework that was published by the NAIC two weeks ago. In line with what we had said previously, we will – we still expect the outcome of this framework to be relatively neutral for our capital position. The standard scenario, as it's been developed would not be a binding constraint for us given that our variable annuity assumptions are consistent with or more conservative than the proposed framework.

While these are significant changes to the RBC framework, we also continue to optimize the capital position of the U.S. through management actions. Also, we estimate that tax reform will have a positive impact on capital generation of $100 million per year, which we have assumed will not be used to increase remittances to the group but is available to further improve the RBC ratio in the U.S. if necessary.

Moving on to the Netherlands, the Dutch solvency ratio was close to 200% at the end of 2017. The capital position leaves ample room to do two things: one, invest in alternative assets; and two, to absorb the intended lowering of the UFR over the next three years with the first 15 basis points reduction being reflected in the first half 2018 reporting.

The high capitalization level also enables the Dutch unit to absorb unexpected negative market movements and other potential headwinds from refinements of Solvency II parameters and methodologies.

The ratio of the UK has become much more predictable and stable following the divestment of the annuity portfolio in 2016 and stood at a solid 176% at the end of 2017. Let me remind you that this ratio does not include any meaningful benefit from transitionals or long-term guarantee measures. We expect this ratio to come down in the second half of 2018 as we complete the Part VII transfer related to the acquisition of BlackRock's defined contribution business.

The impacts on the local capital ratios mentioned on this slide mechanically translate into an impact on the group ratio as I will discuss on the next slide. This is precisely the reason why we have managed the ratios of our businesses to the top end of their target ranges. Our local units now have adequate capital buffers to absorb these changes, while continuing to upstream capital to the group, invest in the business, and execute on their strategies.

Let me remind you that the aforementioned changes are expected to take place over a three-year period. This means we do not expect our Group Solvency II ratio to actually move down dramatically. Furthermore, the changes will lead to significant increase in capital generation of around €150 million per year. We expect to retain part of that future capital generation in the group to offset a large part of the anticipated changes. Additionally, we will continue to consider management actions to further strengthen our capital position and capital generation when and where appropriate. This will also support maintaining a strong quality of capital.

At year-end 2017, Tier 1 capital comfortably covered SCR with a ratio of 166%. And let me remind you that our Solvency II sensitivities to market movements are very manageable. The Tier 1 coverage and Group Solvency II ratios are good indicators of our financial strength. They are however not the key drivers of capital deployment. Why? – Because we need to be able to upstream cash from our local units to be able to redeploy it at the group level.

Another question I've been asked is how we look at the stock and flow of capital in our capital management decisions. In principle, our units will pay the planned dividends to the group, subject of course to normal governance, as long as their Solvency II ratios are anticipated to remain within their respective target ranges. Market movements can have a significant positive or negative impact on the ratios of our units. In general, we don't consider positive market movements fully deployable capital, even if the local ratio would move into the opportunity zone. We tend to stick to the planned dividends and thus only gradually upstream the benefit from any positive market movements over time.

Now, I'd like to briefly touch upon rating agency considerations on the next slide. We, and I'm sure most people who are listening in today, pay a lot of attention to regulatory capital ratios. In addition, we closely monitor our capital adequacy as per the models of the different rating agencies. As I'm sure you are all aware, rating agencies don't just look at capital adequacy; they take a more holistic view and assess a combination of factors including liquidity, quality of risk management, and a range of profitability and leverage metrics.

The profitability and leverage triggers are normally based on IFRS metrics. In 2017, we generally met or exceeded all of these IFRS-based downgrade triggers. One of S&Ps key focus areas is the quality of capital. Based on their model, we rely heavily on the value of business in-force and hybrid debt. We expect to improve the quality of capital over time as we grow own funds and retain capital. These downgrade triggers are not bright line tests and failing - falling short on one metric does not imply a downgrade per se, as rating agencies take a more holistic view.

When taking management decisions, we need to balance the impact on capital, capital generation, rating agency metrics, and leverage. For instance, putting on hedges to protect our capital position can negatively impact our IFRS profitability through fair value movements. The leverage calculation of all major rating agencies are also based on IFRS metrics. The rating agencies recognize that the new IFRS standards will not impact the cash flow pattern of our business. However, they might recalibrate their leverage targets. Given this uncertainty, we plan to gradually manage down our leverage ratios and increase financial flexibility in the medium term.

As you can see on slide 17, we expect to move to the low-end of our target range for financial leverage in 2018. The planned redemption of a €500 million senior note in August will reduce our last reported leverage ratio by approximately 150 basis points on a pro forma basis.

Over the coming years, the leverage ratio is expected to gradually reduce further as a result of retained earnings. As I mentioned earlier, it is likely that our IFRS equity will become somewhat more volatile. In the coming two years, we will get more clarity on the impact of the new accounting standards and the stance of rating agencies. By lowering our leverage ratio, we are creating financial flexibility to absorb any potential impacts on our equity base. Our other internal metric for leverage is the fixed charge coverage ratio. This currently sits at the top-end of our target range and is anticipated to improve further in line with earnings growth.

On slide 18, I will discuss our refinancing plans. Just because our leverage ratio is expected to decrease in the short term, this doesn't mean that we aren't expecting to issue any debt in the coming years. In fact, our intention is to replace most of our grandfathered securities with Solvency II compliant instruments before the end of 2025. We have significant flexibility to achieve this as the vast majority of our grandfathered securities are callable on a quarterly basis.

Earlier this year, for example, we issued our first Solvency II compliant Tier 2 securities and used the proceeds to redeem grandfathered Tier 1 and Tier 2 securities. After taking into account tiering restrictions on Tier 1, we still have €2.2 billion of grandfathered Tier 1 securities outstanding.

Since our AGM in May, we now have the authorization in place to refinance the majority of the grandfathered debt with Solvency II compliant contingent convertible securities in the coming five years. At present, we don't intend to issue any Tier 2 debt other than that for refinancing purposes. Instead, our preference is to maintain the Tier 2 headroom we have as this provides financial flexibility and serves as the potential source of capital if needed.

Moving to another dimension of our capital framework, on slide 19, you can see more details about how our excess cash in the holding position works out. We target holding excess cash of €1 billion to €1.5 billion and this provides us with a buffer for three purposes. First, it enables us to continue to service our debt and fund the operating expenses for 1.5 years. Second, it covers contingent collateral needs in a 1-in-200 year liquidity stress scenario. And therefore third, it provides a cushion in case there is an unexpected timing mismatch between remittances from the units and planned capital deployment. All our excess cash is unencumbered and held in our top holding Aegon N.V., mostly in money market instruments.

In order to optimize the return on investment, we have invested part of the holding excess cash in highly liquid short-term assets. Furthermore, we deduct the net current liabilities from our holding excess cash position. Please note that net current liabilities exclude deferred tax liabilities as these are mainly related to our hybrids; and thus, are considered long-term. The aforementioned short-term investments and deferred tax liabilities mean that our reported holding excess cash cannot be fully reconciled with our parent-only accounts.

In the last section of my presentation today, I will focus on capital generation and discuss the implications of our capital management framework on remittances and capital deployment. In 2018, we expect our units to generate nearly €1.5 billion of capital on a normalized basis. We achieve this through a number of actions. In the Netherlands, for instance, we significantly improved the capital position of our business through a capital injection of €1 billion, the divestment of UMG and by enhancing the risk profile of the business through shifting investments to more illiquid assets.

In the UK, our business has undergone a complete transformation from a subscale insurance business to a market leading platform player. At the same time, the earnings power of the business has improved, the capital position strengthened and the capital intensiveness reduced. In Asia, we've taken a series of management actions including placing Aegon Insights into runoff and optimizing the capital framework to improve from a consumer to a capital neutral business.

Meanwhile, our U.S. operations continue to compromise the bulk of the capital generation across the group which is supported by our $300 million expense savings program in the U.S., continued product redesigns and a $100 million increase over 2017 driven by U.S. tax reform.

After holding expenses, our free cash flows of approximately €1.2 billion before market impacts and one-time items is nearly double the amount needed to pay dividends to our shareholders. Part of the capital generation will be retained to increase the local unit capital ratios. This will enable us to absorb unexpected negative market movements and other potential headwinds from refinements of Solvency II parameters and methodologies. This number will continue to rise over the medium-term due to the decisive actions we have taken and will continue to take to grow capital generation.

Let's now move on to slide 22, which provides you with more insight into capital generation for the group. In 2017, our capital generation significantly benefited from market movements and one-time items. This slide provides a normalized view and shows that on this basis, our capital generation is driven by Own Funds growth, the most sustainable form of capital generation. Before investment in new business, we generated €2.5 billion of capital with the majority coming from our Own Funds growth. Going forward, this is expected to contribute to a further improvement of the quality of capital.

SCR release, measured at the midpoint of the target range for our units, only contributed €400 million to capital generation. As you can see, we reinvested almost half of what we generated back into the business and the new business strain is well balanced across the group.

Turning to slide 23, we see that investments in new business that meet our group-wide pricing targets are core to our business. We believe this is the best and first use of our capital because it drives future capital generation. As many of you are aware, we have set clear minimum hurdle rates for pricing with a targeted internal rate of return in excess of 10%. The majority of our new business investments are expected to have an IRR of over 10%. This reflects the steps we have made in terms of pricing and product design and has led to significant reduction in payback periods. In 2017, approximately 73% of the new business strain had a payback period shorter than or equal to 10 years, an improvement of approximately 17 percentage points compared with the previous year.

As a result we expect every euro of new business strain to lead to more than 3 times as much capital generation over time. We recognize that this is an undiscounted number but further reducing the payback period and increasing the IRRs will mean that this capital generation becomes increasingly frontend loaded.

As you can see on slide 24, we have significantly increased the diversification of net remittances. In recent years, the group was very reliant on the U.S. business. I'm pleased to be able to reconfirm that the Netherlands and the UK will both resume remittances later this month underscoring that the capital ratios of these entities are back at healthy levels.

Capital injections to fund growth in Asia, Turkey and other businesses are skewed to the first six months of 2018. In the first half, we expect a total of approximately €100 million capital injections into these business units. These will be partly offset by dividends from other units in the same regions in the second half of the year.

Let's now turn to slide 25 where I will discuss capital deployment. I've already touched upon two key capital deployment priorities, continued investment in the business, managing down leverage to increase financial flexibility and furthermore, we aim to pay a growing and sustainable dividend that is strongly covered by the capital generated by and remitted from our operating units. Any remaining financial flexibility can be deployed for share buybacks and acquisitions.

And here, I would like to stress that we have been very disciplined when it comes to acquisitions. Our M&A focus has been and still is on in-market bolt-on acquisitions that support our strategy. In addition, we will consider divestments if businesses do not meet our strategic and financial criteria.

Before I conclude, I'd like to briefly touch upon the progress we've made so far on our 2000 (sic) [2018] (00:38:21) financial targets on the next slide. As we switched over to half-year reporting, I'm unable to provide a quantitative update on the progress we are making toward our 2018 financial targets. What I'd like to reflect on, however, is what we've accomplished in the first two years and where we expect to finish in relation to each target at the end of the year.

As you can see, we've made very significant progress toward our targets in the first two years. And this means we are on track to deliver on our targets at year-end 2018. We expect to hit run rate annualized expense savings of €350 million. As a reminder, our program consists of a $300 million target in the U.S., €50 million for the Netherlands, and €15 million for the holding.

The run rate annualized expense savings as of year-end 2017 stood at €280 million, including the innovative outsourcing agreement with TCS to manage the administration of our life and annuity business in the U.S. earlier this year.

Throughout the past two years, we have continued to see strong sales momentum across the business. In 2017, this was driven by record year for gross deposits, particularly in the UK, following the acquisition of Cofunds and also an asset management through our joint ventures. The growth of our business and the successful expense savings program, together with the expected benefit from U.S. tax reform, gives us additional confidence that we will achieve our return on equity target of 10% in the fourth quarter of 2018. Finally, I'd like to reaffirm our commitment to returning €2.1 billion to shareholders over 2016 to 2018. This will be achieved by continuing to pay a sustainable and growing dividend. Overall, we continue to make strong progress on our financial targets.

On slide 28, just to wrap up my presentation, I'd like to leave you with a few key takeaways. First, as I just highlighted, we are making strong progress on each of our 2018 group financial targets. Second, the finance team is fully focused on the execution of our group-wide finance transformation journey with an emphasis on being well-prepared for the implementation of IFRS 17. The transformation will not only position us well for these changes, but will also allow us to provide enhanced disclosures to our stakeholders that align well with how we manage our business for the future. Finally, we are committed to maintaining a solid capital position above the midpoint of our target zones, not only at the group level, but within our main units as well even after taking into account the anticipated impacts between now and 2020.

This strong capital position will be supported by growing capital generation in our operating units over the same period. As the UK and the Netherlands are returning to dividend paying status in the first half of this year, our remittances are expected to remain well diversified across the business. The continued progress we are making as an organization gives me confidence that we are well positioned for the future. As always, thank you for your continued interest in our company.

I'd like to now hand it back over Jan Willem for the Q&A.

## Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. Before we start with the Q&A session, let me introduce Nik Godon (00:41:59) who is our Chief Actuary in the U.S. He's available on the call to answer questions as well.

# Q&A

## A - Jan Willem Weidema {BIO 15133400 <GO>}

We received many questions and we'll go through them topic by topic. Starting off with a more general question, Matt. You have been CFO of Aegon for over a year now, what was it that most impressed you about Aegon and where do you think our company still has work to do?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. I think the thing that most impressed me was, let's say, the depth of the experience monitoring process and the way that changes are reflected routinely in the provisioning. Furthermore, I think that Aegon has the ability and willingness to make big moves such as the sale of the COLI/BOLI business, UMG and injecting €1 billion into the Netherlands and also the sale of Ireland. The outsourcing of life and annuity administration to TCS was another example of a very big important move for us. There is a speed and agility to this company which I have rarely seen.

Now, where can we improve? I can really only look to my backyard here. I think much of the IFRS 17 work is foundational in nature so that would be systems, data, process, real core foundational work, and I think that we need to do some accelerating there and I think we're already doing that.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks. You mentioned systems and before you mentioned models as well. Can you give some more color around the validation and conversion of the less complex models? And what the financial impact might be?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. I think I said in the presentation, we've – the most important models, the most complex ones have already been converted, but there are still some more minor ones left to do. And these are some 20 separate models that need to be converted ultimately onto their destination, let's say, valuation platforms, but because they are, let's say, less complex in nature, we would not necessarily expect any big hiccups to come through. I think it would be very minor things.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. As a result of the recent events in the industry and some analyst notes in recent weeks, long-term care has received a lot of attention. Also today, we've received many questions on this topic. So, let me spend some time on that. To start off is your long-term care assumptions on a IFRS basis? To what extent have the auditors looked through the assumptions and assessed them?

## A - Matthew James Rider {BIO 20002664 <GO>}

So, the auditors routinely go through our assumptions setting and especially, obviously, each time when we do the big assessment. So, in this case it's the second quarter for the U.S. and the fourth quarter for the other businesses. So, the auditors actually do a very detailed job. They look to make sure that the assumptions that we're making are tracking well with our actually actual observed experience, and they also sort of give an opinion on what they see throughout the rest of the industry in terms of what other participants are assuming.

So, on that sense we try to remain within a relatively narrow band of acceptability and we try to stay within the middle of the road. So, auditors typically look at this pretty seriously. We also from time to time in fact call in outside actuarial organizations to give an opinion on the extent to see - the extent to which they see our assumptions are in line or not with the market. And so far, especially since 2016, we've seen everything track pretty well with our experience.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And would you say that scrutiny is rising here?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. It definitely is rising. We've in fact not only from external market participants, analysts and investors but also from regulators as well. And we have received more questions in terms of the assumptions that we're making on long-term care business. But so far everybody seems satisfied with the results and we've not had to make any adjustments to our provisioning as a consequence of it.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. The next question is on the actual to expected, the statutory reserves are quite close to the IFRS reserves on an overall level. So what do you think is the risk of increased reserves being required there given the high actual to expected ratio on a stat (00:46:15) basis?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. I think one of the things that I've seen maybe missed a little bit in some of the recent analyst write-ups on this, is that they're recognizing the fact that cash flow testing is performed at a legal entity level. And if you have losses in one area, they could be compensated by gains in other books of business. But, in fact, there is an annual premium deficiency reserve test that is done, that looks at basically the adequacy of the statutory reserve. But looking at let's say the more management best estimate assumptions going forward, so it's a typical gross premium valuation together with some prudency added into it particularly around investment returns and such things.

So I think that at this point we're not seeing deficiencies in the long-term care block and I would emphasize that whereas the cash flow testing is done on a legal entity basis that sort of combines blocks together. In the case of this premium deficiency reserve, it's done specifically for long-term care. So, so far, we are not seeing a deficiency on that basis and the legal entities for long-term care specifically.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

All right. Do you believe, or do you have a fear actually that regulators or auditors will pursue higher provisions as there is a fear for systemic risk?

## A - Matthew James Rider {BIO 20002664 <GO>}

Not necessarily. On this one, I would point more to our ability to get premium rate increases. So, for example, I think there is a recognition with another one or two notable failures in the market that they probably could have been avoided had state officials granted premium increases going forward.

So, I think, if anything, there is that recognition among state insurance departments that granting premium rate increases is really a buffer against protecting against insolvency. So I think that's one of the reasons why we can be so confident that the €300 million remaining in rate increases, we think that we're going to be able to get.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

The next question is quite specific on this topic. If Aegon wants to update their morbidity assumptions for statutory accounting, would that figure a true-up in provisioning, keeping the discount rates stable?

## A - Matthew James Rider {BIO 20002664 <GO>}

You have to repeat the question there.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

If we were to update morbidity assumptions to best estimates on a statutory basis, what would be the impact on the reserves?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, it's a strange thing. It would result in lower statutory reserves. Because, in general, the morbidity provisions under IFRS are a little bit more prudent, and more reflective of our current experience. Whereas the assumptions that are made in stat (00:48:56) and I would say not just related to morbidity, but in other areas are well either locked in assumptions, at policy issue, or at time of an unlocking, or are mandated by regulation, especially in the case of interest rates as an example. So that would be the basic impact. And then you'd have to roll that through premium deficiency reserve testing and also cash flow testing, so it gets a bit complicated. But it was a complicated question.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

The next question is on the investment returns for long-term care. As the uplift assumes or the 7% investment return assumes, how dependent is it on the forward-starting swaps and to what extent is it more alternative assets that drive that?

## A - Matthew James Rider {BIO 20002664 <GO>}

It's a - it's, I would say, it's just simply a combination of both. I would mention that, yeah, it was quite prudent back in 2002 to begin this forward-starting swap program because this is really protecting us for a period going out more than 20 years. So, it is a combination of the two.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Can you clarify? Is that a 20-year period from the start of the program...

## A - Matthew James Rider {BIO 20002664 <GO>}

No.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

...or is that 20 years from (00:50:05)...

## A - Matthew James Rider {BIO 20002664 <GO>}

No, actually going forward from now. So this was quite a long dated program recognizing of course the extremely long duration nature of the liabilities.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

To what extent do you believe there's a litigation risk in relation to these the rate increases for long-term care?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. Maybe, maybe I would call on - we have Nik Godon (00:50:27) on the phone. Maybe we can ask that question of Nik (00:50:31).

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Matt. So, I think in the U.S., there often is litigation risk in the insurance industry, but the rate increase process from a long-term care perspective is heavily involved with the state regulators. And so, we have to go through a considerable effort to actuarially justify the rate increases that we do and there are various requirements in the states to basically only allow a certain amount of the premium to be safe. Basically, we have loss ratio requirements. So, each - a portion of each dollar premium essentially has to go to benefits. So with the rate increases, as I stated, given that we have such heavy involvement with the regulators, I think that would reduce the risk that there might be an action of that nature. And generally, we've not had too much action in that area so far that I'm aware of.

## A - Matthew James Rider {BIO 20002664 <GO>}

Okay. Thanks, Nik (00:51:31).

## A - Jan Willem Weidema {BIO 15133400 <GO>}

The next question is, what do you actually assume - we talked about morbidity earlier. What for mortality improvements in your IFRS reserves in order of sensitivities around - you could provide around that.

## A - Matthew James Rider {BIO 20002664 <GO>}

Difficult to do for mortality. For active lives, we're locked into - and I assume we talk about statutory numbers at this point but for active lives we are locked into prescribed valuation tables. So, I think we use 1983 GAM for - to hit their pre-2005 business and 1994 GAM after that. And then for disabled lives reserves it goes back to our actual - goes back to our actual experience.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And how does this compare to the IFRS assumption for this metric?

## A - Matthew James Rider {BIO 20002664 <GO>}

Well on the - so, the IFRS metrics for, let's say, disabled live reserves and those for statutory are basically the same. But then if you go to IFRS, they're more, let's say, prudent.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

The next question is on the - come back to the 7% investment return you were getting - Aegon is going through rate increases at the moment. Are those captured by the forward-starting swaps put in place in the past?

## A - Matthew James Rider {BIO 20002664 <GO>}

Are they cap - well, no. The forward-starting swaps would have been based on the original premium, so that would not be captured. But I would emphasize again that without those premium rate increases, we would be holding substantially higher reserves. So just on balance, this is - the premium rate increases are really helping us quite a lot. It's impossible to lock in interest rates on something that you didn't know was going to happen years from inception.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And with respect to these swaps, can you exclude the possibility that the swap program both the benefits and the goals are accounted for in other places of the AEGON group and not just in the specific long-term care book?

## A - Matthew James Rider {BIO 20002664 <GO>}

Are accounted for? No, I think we are accounting for that one properly.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

The next question is a question for confirmation on the following. Can you please confirm that your IFRS reserves assume 100% execution of the price increases in long-term care?

## A - Matthew James Rider {BIO 20002664 <GO>}

That is correct. But importantly, they assume 100% execution of the price increases of the current program and do not reflect any future programs that we might do in the future.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

The next one, could you – could it be possible for AG51 (00:54:22) in the U.S. that at least through the (00:54:26) cash flow testing hits for long-term care?

## A - Matthew James Rider {BIO 20002664 <GO>}

Well, AG51 (00:54:30) is now prescribed. So we submit information to the – to U.S. regulators on a confidential basis. Looking at long-term care blocks in much the same way as you would look at normal cash flow testing, except that you look at the block just in and of itself. However, what we are seeing through, again, that premium deficiency reserve testing is that given the rate increases, given the locked-in interest rates and other things, we're still comfortable with the position.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. You mentioned that no IFRS charges are expected. Can you comment on the position around stat at this moment?

## A - Matthew James Rider {BIO 20002664 <GO>}

No, we can't comment around statutory at this moment. In fact, I've just gone through some of the preliminary review of the figures. It looks like IFRS is fine. There's still a little bit of work to be done on stat, but we'll obviously inform everybody at the second quarter.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Okay. That is largely it as far as long-term care goes. One last question, what is the risk that you have to recognize a charge on stat reserves by bringing experience in line with best estimates?

## A - Matthew James Rider {BIO 20002664 <GO>}

Very difficult, very difficult to say. Maybe on this one, I look to Nik (00:55:56) on this one.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

As you stated earlier, Matt, with the premium deficiency reserve when we take what is essentially our best estimates with a bit of prudence, we currently still show that the statutory reserves that we hold are sufficient on a standalone basis for the long-term care basis. So to the extent we had to move everything to, as I stated, a two best estimate with some provisions, we think we would still have sufficient statutory reserves as of right now.

## A - Matthew James Rider {BIO 20002664 <GO>}

Okay. Thanks, Nik (00:56:31).

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Nik (00:56:32). Thanks Matt for the detailed answers on long term-care. In case participants have any further questions, then please reach out to a member of the Investor Relations team as for the webinar, but there's also other interesting topics to cover so let's move on to the next topic.

Do you believe that IFRS 17 will increase comparability within the sector? And if not what needs to be addressed in order for it to be successful from that point of view?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. I think at this point, it's going - there's no doubt about it. It will increase comparability in the sector and it will definitely make the IFRS balance sheet more meaningful frankly. So from that perspective, I think just getting the P&L and the balance sheet basically on the same basis, we're going to be able to talk sensibly about these businesses, whereas now we are constantly fighting this battle of talking about capital a lot because that's of course the most important thing that we focus on as Aegon. But sometimes it gets misaligned with the current standard under IFRS. So I think it's going to - it's definitely going to increase alignment but it is going to be a learning curve for analysts and investors to start to understand the nuances of what's going on.

And as I said before, there are choices that companies are going to have to make that will reduce a little bit of the comparability, but I think it's within a relatively narrow range. I think you're going to - I think we're going to be able to deal with that one. But again, it makes the P&L and the balance sheet lineup in a sensible way.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks. Moving on from the IFRS balance sheets to the capital side of it. When do you think we can get an update on tax reform and the NAIC charges from the NAIC?

## A - Matthew James Rider {BIO 20002664 <GO>}

When we hear from the NAIC. So this is - it's been an interesting one. We have - we've been thinking that originally they might postpone past 2018 and to 2019 on both the RBC asset base charges and also the implications for the RBC factors as a consequence of tax reform. But it could - now it seems like they might be pushing to get it in before 2019 in this year alone.

But the fact of the matter is, we don't really care. We have provision for this. We understand what's happening. We have anticipated these impacts and whether they happen in 2018 or 2019 makes no difference to us. At the end of the day, we feel like we're in a very good spot and have come out of tax reform very well, in fact.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And a related topic. Are you still guiding to the U.S. RBC ratio in the upper end of the target range or has this changed?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. Technically, if you had – so we're sitting at 472% RBC at the end of the fourth quarter. Technically, if all those things happened at once, we could dip slightly below the midpoint of the range. But, remember, that doesn't include the capital generation that they will, in fact, retain as a consequence of tax reform and any other management action. So I would say, at the very least, it's not going to be materially lower, 10 percentage points. I have no idea. But it's going to end up at a worst case scenario in the middle of the range and in kind of any other case scenario in the top half of the range.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

You touched upon management actions, can you perhaps elaborate there what you're thinking of?

## A - Matthew James Rider {BIO 20002664 <GO>}

Well, there's always actions that you can take. So, for example, the variable annuity changes, the framework changes that will happen to the NAIC. Although it has no impact for us on a – let's say, on a just a straightforward basis, it does bring in the possibility to, let's say, collapse some of the captive reinsurance companies and to bring them all into a legal entity and that could have some capital benefits. But yeah, these are just sort of normal course of business, hygiene types of things that you can do. And then, we're constantly looking for ways to improve capital generation. Let's be clear.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

As you mentioned in the presentation that €150 million extra capital generation is coming from these changes. Is that already baked into the guidance that you gave on one of the slides?

## A - Matthew James Rider {BIO 20002664 <GO>}

No, not yet. So that will come after. So what we're trying to portray on that slide is that we have some negative impacts that are going to happen over a period of, let's say, two to three years. And then, after that period then we end up with the beneficial impacts of capital generation. The one exception to that's probably U.S. tax reform.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Yeah. So it's not reflected on slide 14, the unit ratios but on slide 21, the outlook for 2018 has part of this baked in right (01:01:18).

## A - Matthew James Rider {BIO 20002664 <GO>}

I would say part of it. But again the Netherlands, the liquid programs, (01:01:22).

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And why do you have still a new business strain of €1.2 billion? What kind of business is that?

## A - Matthew James Rider {BIO 20002664 <GO>}

Well, it's a combination of things. So we have we have capital - let's be very clear, we've gone way more from a capital-intensive business to one that is more capital-light. But there are still products that have new business strains.

So, for example, indexed universal life in the U.S. term actually has new business strain. And also, let's say, packaged pension business in the UK has new business strain as well. But these are again new business strain is actually a positive thing to the extent that we can convert that into capital generation going into the future as well as to maintain our 10% pricing hurdle. So this is not necessarily a bad thing. But some of our businesses where we do manufacture product and it's more, let's say, traditional life insurance product does have a capital strain.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And can you talk about the nature of that strain (01:02:26) SCR?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, the way that you need to think about this is on day one when you issue a contract, there are, let's say, upfront expenses that could be, let's say, first year commissions, acquisition costs, marketing expenses, that kind of thing and those are sort of cash outflows.

But the interplay between that and the way the regulatory capital reserving mechanism works is really, really an important one. And it turns out that for a product like indexed universal life, it doesn't play that well. So there is a big surplus strain whereas for something like variable annuity, the differences between the reserving mechanisms and those, let's say, initial outflows means that there's a little bit less surplus strain. But it is very heavily reliant on the regulatory capital system, where you're issuing the business combined, of course, with let's say upfront expenses that you're incurring to issue the contract.

And I follow up on one thing. So in addition to that strain, that would be like an own funds sort of thing. In addition to that, we typically have to set up SCR to be able to support the business. So even if you were issuing something on balance sheet that ended up with zero statutory profit or loss in the first year, you would still likely have to set up regulatory capital to support the assets, for example, and the liabilities that you've put on the books. So you always have to think of it in those two components.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

You also mentioned the UK as a contributor with the UK becoming more and more platform business, why is there still quite some new business strain from the UK business?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, it really comes from – you would say packaged pension businesses and I would say largely these are maybe a good way to talk about it is, if you think about the existing business, the way that we're going to report it going forward, this is business that we're currently not writing any new business. But these are existing pension contracts where you could have, for example, salary increases on existing contracts that are coming through or new employees that are coming through. So there is a capital strain associated with those and then a lower, but similar kind of amount on the new platform, let's say, the digital solutions type of business.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks. Moving on to the capital generation of the U.S. specifically, to what extent is that supported by a benign credit environment?

## A - Matthew James Rider {BIO 20002664 <GO>}

What we what we typically do is when we go through our budgeting and, let's say, medium-term planning process, we simply look at what is the long-term assumption for things like credit defaults or – well, basically, interest rates and many other things.

So what's reflected in our expectation is more an average credit environment. Now, clearly, now we are in more of a benign one. So we would expect to get some maybe positive things on that one. But we typically go for our planning process in our forecasting. We go for the middle of the road and that means sort of a – let's say, a normalized credit environment and that's where – let's say worse than the one that we're in now.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Moving from a capital generation to the ratio. How relevant are the targets on group Solvency II ratio given the needs last year to capitalize businesses on a local basis?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, it's a very good question. I would say that the group solvency ratio has some direct implications for us. But a lot of what we do for, let's say, capital generation and remittances is clearly based on local solvency ratios.

But from a group Solvency II perspective ratio point, you're really looking at that as a basic hygiene factor. You reflect back to what we did last year with DNB to get a more equitable conversion of the U.S. business. And that was simply to make us in line methodologically with other European peers. So just from a basic hygiene factor, we got to a 200%.

You will note by the way that our intention - or let's say, our intention in doing that was not to say okay, let's pay out extraordinary dividends, we actually increased our target capital management zones upwards to enable to counteract that things. So our intention was not to pay additional dividends.

But where it does come into play is in the tier-ing of capital. So that does come into play when we think about the let's say Tier 2 capacity, those kind of things. So it's an important one from a tier-ing capacity standpoint.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Yeah.

## A - Matthew James Rider {BIO 20002664 <GO>}

It's important from a, let's say, a basic hygiene factor and a comparability across European peers factor. But really, when we talk about externally payable dividends, you first have to start with the remittances from the individual business units. That's why, we have them capitalized at high enough levels so that they can be a bit resilient and so that we can rely on the planned dividend payments coming up from the businesses.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And to what extent would you say that the current Solvency II ratio is inflated or benefited from market movements and which you would regard to be not fungible?

## A - Matthew James Rider {BIO 20002664 <GO>}

Boy, that is sort of a second derivative type of question. But I would say, it's not particularly inflated at this moment. But then, again, even if it was, I'm far more interested in what's going on in the individual business units. But I think the 201% at least at year-end was pretty okay and reflective of sort of current environments, if you will.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And for any of the individual units, do you see them as benefiting more than average from market movements?

## A - Matthew James Rider {BIO 20002664 <GO>}

No, but I wouldn't say it that way, I would look more toward our capital sensitivities that we've published for the major business units and for the group on Solvency II basis. And it's actually, if you look at the sensitivities, we're actually pretty well-balanced out there. So that tells me that, we're not kind of out of whack with weird market movements being inflating or depressing the Solvency II ratio.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. Could you provide a bit more detail on what are the kind of remittances we can expect in 2018 and how it will grow over time?

## A - Matthew James Rider {BIO 20002664 <GO>}

Well, the remittances for 2018 are pretty clear from - I think, from some of the slides. It's a little too early to talk about 2019 and forward. I think everyone is aware that we have committed 2016 to 2018 financial targets. And there's going to be a moment when we refresh these things, but that moment is not now. We are really more focused on achieving the 2018 results and achieving what we've committed to the market. And so far as I said in the presentation, I think, we're very much on track to be able to do that.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

The Netherlands and UK are resuming regular dividends as per your comment earlier. Does that mean we should expect the first half remittances to be repeated going forward?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, how do we say this? We have to be very, very careful about these things. So what we do know is that the Dutch business and the UK business will remit dividends in the first half of the year.

But I always caveat this and you know that we talk about it in this way. We always caveat it to say that this is subject to normal regulatory process. And I cannot emphasize that enough especially in a Solvency II heavily regulated environment that we do have to work through our normal processes for dividend upstreams in all the European countries. So to say expect, I just say capital thing - capital position looks good, things generally look good. We got the first half dividend. We do this half of the year by half of the year, subject to normal governance.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And do you see scopes to increase the payout ratio for the group to beyond 50% from free cash flow?

## A - Matthew James Rider {BIO 20002664 <GO>}

Let's see how we progress with IFRS 17, I would say. I would say, there's certainly some limited scope to be able to do it. But let's see how we come out with our MTP planning process for this year. We are going to be stressing with the businesses the need to basically generate sustainable ongoing capital generation. And that's the thing that fuels remittances. And from there, we decide dividend payout ratios and the like.

But IFRS 17, we have to be a little bit flexible here to see if we - do we need to de-lever. Probably not immediately as we run up to 2021, maybe we don't know. A lot will depend on how the rating agencies ultimately look at these things and what peers are doing as well. So let's be a little bit conservative here in the relatively short term.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

We have a follow-up on the NAIC changes, would you expect a new (01:11:53) for the U.S. capital position to Solvency II after the NAIC changes?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, that's an interesting one. A very good question by the way. When we negotiated or – not negotiated, I shouldn't say that, when we had agreed with DNB on a new conversion methodology for the U.S., we made it subject to an annual review process.

So, for example, when – so at the very end of the year, tax changes announced at the very end of the year. And the question then is well do we need to rejigger the conversion ratio largely because a big chunk of deferred tax assets got lopped off of the U.S. balance sheet. So one might argue that, well, we cut off a big chunk of the lowest form of capital that you have. Shouldn't we go back and discuss again a new calibration for that point?

And the short answer on that one is no. We have an annual review process with DNB, where we will take all these factors into account together with looking at how have our economic risks faired against, let's say, risk-based capital within the U.S., but this is a process that will happen at the end of the year. And I think we do – it's going to be a number of topics that get addressed and then we'll come to a conclusion and then, we'll move forward.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. On holding excess capital – or holding excess cash I should say, it's unencumbered, it doesn't mean that it's 100% distributable if needed with no constraints?

## A - Matthew James Rider {BIO 20002664 <GO>}

The short answer is yes. So we have the money market funds in large part sitting in NV and then we have these other very short-dated liquid assets that are fully fungible. So I would say this is unconstrained.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Is there any relation in between how much holding excess cash there is and DTAs or LAC DT?

## A - Matthew James Rider {BIO 20002664 <GO>}

No. So let's say, DTAs and LAC DT are things that would affect underlying business units and their – and let's say, their ongoing remittances. So it doesn't affect that excess cash in the holding at all. Not as sort of a balance sheet numbers, so we stand at €1.4 billion excess cash in the holding – excess cash in the holding doesn't care what LAC DT is or deferred tax assets are at that point.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Is any of the holding excess cash in the U.S. holding companies? And if so, can you quantify this?

## A - Matthew James Rider {BIO 20002664 <GO>}

No. So it's been - the vast majority is sitting in NV.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Retained earnings are expected to lead to further reduction of the leverage ratio over the medium term. But then you have to achieve the ROE target of 10%. Can you comment on how the two interplay?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. We've accounted for that. So clearly in our planning. As I said in the presentation, we expect to get to about 10% ROE more toward the end of this year. Probably, not for the full year but for the, let's say, for the fourth quarter. And in our - let's say, in our internal planning, we're generally seeing that we're on a good trajectory going into 2019 given, let's say, the potential earnings growth that we see. But again, too early to set 2019 targets in that way.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And are there any plans to redeem or not refinance any debt instruments in the medium term?

## A - Matthew James Rider {BIO 20002664 <GO>}

Well, we do plan on doing quite a lot of refinancing. So this is the slide that we went through in the presentation with - we have restricted - grandfathered restricted Tier 1 outstanding, we have grandfathered Tier 2 outstanding. So this is stuff over the coming period before 2025. We do, in fact, need to refinance. But the point on this is that we're probably not going to be issuing any hybrids just to, let's say, increase financial flexibility or our own funds in that way. It's really refinancing activities that we're more focused on over the coming period.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

On a five-year view, what portion of the group earnings do you expect to come from Asia? So totally shifting gears here.

## A - Matthew James Rider {BIO 20002664 <GO>}

Five-year view - boy, that's a tough one. Yeah, it depends a bit on the things that we're doing in Asia. And I think everybody knows we view Asia as a significant growth opportunity. To what extent that converts into earnings per se is a little bit unclear. Most of our, let's say, our emphasis in terms of, let's say, direct-to-customer digital kind of offerings, we're thinking about for Asia. And it may not be that they generate a tremendous number of earnings and maybe a case where we're investing for growth and we look to get a valuation in a very different way.

So looking forward from an earnings perspective, I don't know. From a value perspective, that's the interesting one that we're thinking about. And there is going to be an A&I Day on Asia upcoming, I believe.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And to what extent are add-ons important for the Asian region?

## A - Matthew James Rider {BIO 20002664 <GO>}

Add-ons. Add-ons. Yeah. I wouldn't say, in the context if by

Add-ons you mean, let's say, bolt-on acquisitions things of that nature. Probably not so much important. Add-ons in terms of different kinds of digital initiatives to capitalize on things that we're seeing in the market in Asia. Yeah, that's potential. But it wouldn't be to sort of increase the size and scale, let's say, in a traditional sense.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Staying on the topic of add-ons, what is the upper end limit for capital invested in add-ons? What do you consider in add-on?

## A - Matthew James Rider {BIO 20002664 <GO>}

Capital invested...

## A - Jan Willem Weidema {BIO 15133400 <GO>}

(01:18:01)

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, maybe an easier way to think about this, the way that we think about the excess cash in the holding is and I think you saw it a bit in the presentation, we keep - we try to keep that floor of $1 billion to be able to provide for the holding expenses and the debt service in the in the holding company together with some collateral requirements and $100 million and $200 million (01:18:27) liquidity stress test and some other buffer. So we think of that that $1 billion as a bit of a floor. But anything over that is yeah, fundamentally, let's say, additional flexibility that we might be able to deploy into acquisitions or whatsoever.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Okay. We have a few questions left at the moment. Staying on the topic of M&A, could you specify your interest in doing a larger M&A in the Netherlands?

## A - Matthew James Rider {BIO 20002664 <GO>}

Larger M&A in the Netherlands. Okay. So, let's talk a little bit about Vivat. I assume that's the sort of the...

(01:19:10)

## A - Jan Willem Weidema {BIO 15133400 <GO>}

...behind the question.

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. I think that was behind the question. So I think as we've said, first and best use of capital that we generate; invest in our own new business; that's where we get the best return. It's our core business. That's what we like the best. It is an area where we go through this process in the MTP, look at sales projections, what each of the markets is able to do. As long as they are able to meet their pricing hurdles, then they are at this moment unencumbered in terms of making those investments. So, that's the first and best use.

The second one would be, to the extent that there are bolt-on acquisitions like Cofunds, which I think was - I mean, it's sort of the poster child for doing a bolt-on acquisition, low-cost for customer acquisition, enhance the strategy, added assets under management and in fact has been quite successful. That would be maybe the second thing.

To do a larger deal, because, in this case it's in our home market, it's in our backyard, we would have to take a look at this deal. It would have to be a very good financial deal. It would have to go - it would have to pass through our, let's say our strategic lens. And at the end of the day, the most important thing when we would evaluate that, if in fact it does come to market, is we would have to make sure that this is a good deal for shareholders.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

And related to that, would you be interested in acquiring long-life businesses, either stand-alone or as part of a broader group?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah. It would depend; we have non-life businesses in some areas of our business, the Netherlands being one. I think that there could potentially - if something came that was interesting, we would look to achieve a better size and scale with that kind of business, so I would not say that that is out of the question at all.

I think it's very interesting - I happen to like non-life businesses, because they diversify well in the Solvency II context with life businesses. So I happen to like them, and I also see that the Netherlands has done a very good job in their own non-life business in improving combined ratios over the last periods. So they've actually made a good step forward with it. But really, I would view non-life acquisitions to be very bolt-on, very opportunistic, small in size, that sort of thing.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Moving from the acquisition side to the divestment side. Do you expect to see any more big moves like BOLI/COLI still?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, the BOLI/COLI, that was an extremely good one to do; we raised $700 million of capital, which was ultimately fully upstream to the group and was there in fact and available to be able to support the injection into the Dutch business. But that was one of the last remaining, let's say, what do we say, run-off businesses. There's not all that much left in terms of blocks of business. However, I would say that, we try to maintain a disciplined approach to looking at the businesses that could potentially be capital bleeders. And those are on - let's say those have to be able to meet strategic objectives, show us proof points that they're able to achieve ultimately a size and scale which makes them relevant to the overall group.

So we're constantly looking at these businesses. And you couldn't rule out any kind of a divestment, but I would say COLI/BOLI business with something like $14 billion of assets and generating $700 million of capital, that was a pretty big one. I can't see too many of those left.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

The next person to ask a question is thinking of something very big. What about (01:22:51)...

## A - Matthew James Rider {BIO 20002664 <GO>}

All right.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

...selling off Transamerica.

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, so it's obviously topical, right, because other European players are doing things with their own U.S. subsidiaries. This would a very, very difficult one for us. I mean, if you think about it, Transamerica represents about two-thirds of our overall business and there is quite - so that would be a very thorny issue to be able to work through.

There would also ultimately be issues with let's say debt reapportionment, I mean among the various business, so that one is a bit of a tricky one. And I think one important one is, the U.S. has been on IFRS 17 since 2004 I think so. They don't do U.S. GAAP, so that would be that would be a very difficult one. And we really - no matter what we do, we really do have to focus on getting to IFRS 17 implemented across the entire group, including Transamerica.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Moving on to the next question, which is again some smaller part of the group. We're looking at Asia from a value perspective. Are you including possibility of any asset sales there?

## A - Matthew James Rider {BIO 20002664 <GO>}

No, I would just like to note that we have some very interesting properties in Asia at this moment. I think there are some potential opportunities that could make these even more relevant. But we have a very big, stable business, Transamerica Life Bermuda that does high net worth business there, mainly universal life contracts. And really that's the big capital generator for the region and that is effectively supplying the capital that is injected into some of the other units.

So I'm not implying that we're looking to sell big chunks of Asia; that is certainly not the case. But I think that – for example, GoBear that sits actually not in the Asia line of business. But this is a purely digital play. We have a business in India that is a purely direct to customer digital play in a country that is growing in terms a growing middle class, a huge amount of population and of course very digitally oriented. So there are things that I think that we can do in Asia to improve overall value. But that does not necessarily mean trying to get a valuation by selling something.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Moving away from M&A for a second and to the rating agencies. Aegon is on negative watch by S&P. The outlooks usually are set=up (01:25:20) for 12 months through 24 months. Do you feel you have addressed S&P's concerns to prevent a downgrade?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, it was an interesting one. For S&P, if you look back, I think it was in February of this year. We had already been on negative watch for 12 months. And that's the normal point that they would bring you to the committee and make a decision one way or another. And at that point, we – they came to the conclusion after we had presented to them – they had put us on negative watch exactly one year before that. And since then, we had done so many things to just fundamentally improve the overall state of our business from recapitalizing the Dutch insurance organization, to being able to improve the diversification of remittances around the business units, to having gotten out of some interest rate risk in doing the COLI/BOLI transaction. At that moment, we had announced Ireland, so we were getting out of a non-strategic business. I mean, these are – just even going to the TCS transaction that we did in Transamerica to outsource that business, all that heavy lifting that had gotten done put us in such a fundamentally different place than we had been one year ago, maybe it's not time to actually downgrade us. So, what they've done is, they've taken another 12 months to look at our performance. And I'd say that's extremely fair. Look at our performance over the next 12 months and then you can make your decision.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Almost (01:26:57) the next 12 months, we'll have – in August, the half-year results; in February, the full year results. When do you think is a likely moment to refresh the targets?

## A - Matthew James Rider {BIO 20002664 <GO>}

Probably, I think in terms of financial targets, it would be after our full-year results. That would be the logical time. I think there might be some, let's say, some more strategic communications that come out before then. We have the A&I Day for Asia, we have the U.S. coming up in December. But I think in terms of setting new targets – financial targets, it's probably not going to come earlier than the fourth quarter results. I'd love to be able to stand in front of you at the fourth quarter results and say, 2016 to 2018's successfully done; okay, here's what's next.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. That actually brings us to the last question. We're through the questions of the audience, so the last question is for myself. What is the main message you would like viewers from the webcast to take away?

## A - Matthew James Rider {BIO 20002664 <GO>}

Yeah, I think I'd like you all to remember how we have just fundamentally transformed our business into a more efficient and financially predictable company with a strong capital position that allows us to make investments in new business and create a lot of financial flexibility; and mainly, how this gives me a certain confidence that we will be able to improve our profitability and increase our capital return to shareholders. Aegon has spent the last several years doing, as I said, some very heavy lifting with respect to balance sheet repair, business restructuring, improving the control environment and those sorts of things.

We've just had our annual strategy update with our supervisory board and we titled it, growth on a solid foundation. I'd like to think that have a bit (01:28:42) turned a corner and can really focus now on growing the business. That's what I'd like to leave you with.

## A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. Ladies and gentlemen, that will conclude today's webinar. Thank you for your participation. You may now disconnect.