# Q1 2016 Earnings Call

## Company Participants

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

## Other Participants

- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Farooq Hanif, Analyst
- Farquhar C. Murray, Analyst
- Gordon Aitken, Analyst
- Mark David Cathcart, Analyst
- Matthias de Wit, Analyst
- Nadine van der Meulen, Analyst
- Nick Holmes, Analyst
- William Hawkins, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good day and welcome to Aegon Q1 Results 2016 Conference Call. Today's conference is being recorded.

And at this time, I would like to turn the conference over to Mr. Willem van den Berg. Please go ahead, sir.

### Willem van den Berg {BIO 15203834 <GO>}

Thank you. Good morning, everyone, and thank you for joining this conference call on Aegon's first quarter 2016 results. We will keep today's presentation short, leaving enough time to address your questions. We would appreciate it if you take a moment to review our disclaimer on forward-looking statements, which is at the back of our presentation.

First, our CEO, Alex Wynaendts, will provide you an overview of our performance and will be joined by our CFO, Darryl Button, to answer your questions.

Alex, please go ahead.

## Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Good morning, everyone. We really appreciate you taking the time to join us on such a busy day with many companies reporting at the same time. So, let me begin by providing you with a brief overview of our first quarter results before then going to more detail.

Our results were impacted by the challenging financial market conditions we saw in the first quarter. Underlying earnings were impacted by lower average equity markets while net income was impacted by fair value losses as a result of underperformance of alternative investments and hedges.

While the capital position remains solid and well within our target range, our Solvency II ratio reflects the return of capital to shareholders and adverse market impacts. Excluding market impacts and onetime items, capital generation amounted to approximately €300 million.

Our strong sales story continues with sales increasing by 36% to €3.6 billion. This growth was mainly driven by higher deposits of €30 billion and the strategic steps in UK that we announced recently will drive further growth of our fee-based business.

On slide three, you can see that underlying earnings increased this quarter by €30 million compared with last year. So, let me run you through the main moving parts. In the Americas, earnings declined slightly as an improvement in claims experience was more than offset by lower earnings from fee businesses. This was partly as a result of lower equity markets, and this is something I will come back to on the next slides.

In Europe, earnings increased by 20% to €169 million. This increase was mainly driven by lower deferred acquisition costs in the UK. As a result, the write-down of DPAC related to upgrade in customers to the retirement platform in the fourth quarter of 2015.

Asset Management earnings were again strong at €45 million and benefited from continued higher inflows (2:59) and performance fees. This quarter, as you all have seen, we have adjusted our financial reporting to reflect both the growing importance of Asset Management and our increased focus on Asia. Finally, holding costs declined to €36 million due to lower funding costs following the redemption of senior debt at the end of last year.

Let me now explain in greater detail on slide four, how the volatility in equity markets impacted our earnings in the Americas. So, despite significant volatility during the quarter in financial markets, the S&P 500 ended the quarter almost where it started. However, equity markets were down significantly for the majority of the quarter, causing our daily balances to be 4% low on average during the first quarter than at quarter-end. The result was that lower fees, which are calculated on weighted average balances instead of on quarter-end, impacted underlying earnings by $15 million.

As you can see on slide five, net income amounted to €143 million this quarter and was impacted by losses from fair value items of €358 million. These losses were driven by lower than expected returns on alternative investments, particularly hedge funds, as well as by a macro hedge program in the U.S. and by guarantee hedge programs in the Netherlands. While our alternative investments showed poor performance, they continued to perform well on a longer-term horizon.

Despite the fact that we largely have an accounting match in the Netherlands, fair value hedging, with an accounting match, amounted to a loss of €101 million. This was due to differences between Solvency II and IFRS on Aegon's interest rate hedges in the Netherlands. These losses represent less than 5% of the change in liabilities, which increased by €2.4 billion this quarter.

Fair value hedging, without an accounting match, resulted in a loss of €152 million, mostly as a result of our macro equity hedge program in the U.S.

Overall, impairments remained low at €36 million or 9 basis points of the general account on an annualized basis. These were mostly related to energy investments in the U.S.

Let me now turn to capital on slide six, starting with our group capital position. Our Solvency II ratio of 155% puts us at a midpoint of our target range of 140% to 170%. The ratio declined this quarter as a result of market impacts and returning capital to our shareholders. On the Solvency II, capital returned to shareholders is deducted from the ratio at the moment the management decision is made and not when it is made.

Financial markets also had a negative impact on the capital ratio this quarter while the credit spreads including on Dutch mortgages, rating migrations and lower interest rates, particularly in the Netherlands and the UK, all contributed negatively to the capital ratio during the quarter.

Turning to slide seven. The Netherlands, we've made adjustments to our hedging program, which have an effect on both Solvency II and on IFRS basis. During the first quarter, we aligned again to hedging program to the Solvency II curve. And given that there is now an accounting mismatch, we will revisit our IFRS fair value valuation curve in the third quarter. Differences between our hedging program and the valuation of our liabilities lead to increased volatility in our IFRS results. Staff pension plans, as measured by IAS 19 and second order impacts on the Solvency II, both remain un-hedged. We are in the process of updating our sensitivity.

On slide eight, you can see that, in Q1, we once again generated strong sales in our deposit businesses. This quarter is the first time that we are reporting Asset Management separately, and we are understandably very pleased with this unit's continued strong sales. Increasing gross flows was mainly driven by the inclusion of flows from our partnership with La Banque Postale Asset Management in France and higher recognized gross deposits in our Chinese joint venture, AIFMC.

By leveraging our market-leading underwriting capabilities and mortgages for third-party investors, we continue to generate strong net inflows in the Dutch Mortgage Fund. And this was the main driver behind the net Asset Management flows of over €1 billion.

Net deposit for Retirement Plans increased by 14% to $5 billion, primarily due to the acquisition of Mercer's DC recordkeeping business. And net deposits were also supported by our efforts to retain assets in a pension business in the U.S.

In the first quarter of this year, our asset retention rate increased to 20%, and we aim to further increase the asset retention by continuing to improve how we engage with plan participants before they retire and by helping them make the right decisions by providing them with relevant information.

New life sales were down by 11% as higher indexed universal life sales in the U.S. were more than offset by lower sales in Asia and Poland for linked product changes. And this is also in part a reflection of our strategic shift to focus on fee-based businesses.

I would now like to briefly touch to the Department of Labor's Fiduciary Rule, which has obviously attracted a lot of attention over the last 12 months. On previous occasions, I discussed the proposal with you and highlighted our concern that the scope was very broad, that it was complicated and that it could lead to unintended consequences.

And we are pleased that DOL engaged with the industry, and I'm pleased that the final rule has improved in many ways, although we still believe it is likely to have a negative effect about lower- and middle-income earners' access to the advice they need.

The rule will also have implication for some of our distribution partners as a result of the increased administrative burden and compliance costs. The fact that the DOL has granted an extended transition period will enable us to adapt our products and the way we distribute them to the new reality while also supporting the needs of our customers and distribution partners.

Expect the Fiduciary Rule to have no material impact on our in-force business while we anticipate the short-term negative impact on our variable annuity sales of approximately 10% to 20%, in line with industry expectations. And we believe this is manageable in the context of our focus on profitably growing our business.

Let me now turn to expense savings and give you an update on the progress we're making towards reducing our expenses by €200 million by 2018. As mentioned at our Investor Day in January, our vision is to create ONE Transamerica in the eyes of all customers while at the same time increasing the overall efficiency of the organization. This quarter we have implemented the new U.S. organizational structure within Transamerica and completed a voluntary separation incentive plan. These expense savings, together with other expense initiatives, will lead to $40 million of benefit as of the second half of the year. And this represents an important step towards achieving the $150 million target.

Cost savings in the Netherlands and other holdings will mainly come from a reduction of legacy systems, from reducing complexity and from streamlining processes. By 2018, we expect these programs to enable us to meet the expense savings target of €200 million, and we will continue to update you on the progress of our expense-savings program going forward.

Let me now move to last slide on the steps we took during the first quarter towards achieving our strategic objectives. First and foremost, we have almost completed the €400 million share buyback we announced in January and the Association Aegon will participate in the second tranche of our share buyback program, on a pro rata basis, in order to maintain the level of voting rights.

In January, we also indicated that we were considering options for our UK annuity book. And as you know, we concluded that the share was the best option. This resulted in the recent divestment of two-thirds of this portfolio and we're aiming to divest the remaining third.

In addition, we reached an agreement to acquire BlackRock's platform-based defined contribution business in the UK. These transactions will enable us to fully focus on a fast-growing platform and serve the growing needs of our more than 2 million customers in the UK.

We also announced the divestment of the commercial line, Non-life portfolio in The Netherlands as we continue to optimize our portfolio by divesting noncore assets while at the same time investing in businesses that create value and that drive growth.

So, in summary, while our results this quarter were impacted by challenging financial market conditions, we have made significant steps in achieving our strategic objectives. We clearly need to make more progress towards our 2018 financial targets. But we can be confident that we're taking the right actions to transform our company and become a more agile, a more customer-centric and a more profitable organization.

Thank you, all, again to continuing to pay close interest in our company. Darryl, and I are now happy to take your questions.

# Q&A

## Operator

Thank you. We'll pause just for a moment to allow everyone an opportunity to signal for questions.

The first question comes from Ashik Musaddi from JPMorgan. Please go ahead. Your line is open.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning, Alex. Good morning, Darryl. Just a couple of question from me. First of all, can you give us a bit of update on the UK business? It looks like your capital dropped from 140%, which should be 155%, post the disposal of UK part business and it's again back to 140%. What's going on there?

And, I mean, I still don't understand what's the point of – at what point would you decide whether this is a business you should own or not? Because it looks like it continues to remain a drag on your earnings or capital at some point every quarter. So, that's the first one.

And secondly is, in terms of Netherlands, can you give us a bit of color about the capital drop in that as well? How much of that is related to mortgages, mortgage spread widening? How much of that is related to the, say, just general interest rate movement? So, that would be the second question.

And thirdly is can you give us an update on your capital return? I mean, are you comfortable with that? Are you having a debate with the regulator in terms of, is this buyback still okay to do or any sort of what is you're getting on your capital position now? Thank you.

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

Hey, Ashik. It's Darryl. Let me try and answer those questions for you. I'll take them in order. On the UK, 155% to 140%, the 155% was pro forma number at the end of the year. And I think we were clear on that on the press release when we put that out. It was early April at that time, but we didn't have our first quarter Solvency II numbers at that point or any of the attribution. So, we gave you the year-end numbers. And we have the sensitivities that were out there to help you understand how that ratio would move over time. And, in fact, interest rate sensitivity was, as you can see, it's pretty large in the UK. And I think we had said that it was 17 points per 100-basis-point drop.

The swap spreads or the swap rates dropped about 60 basis points in the UK over the quarter, and that has – actually has a bit of a leveraging effect. Not only did the rates dropped significantly but, with swap rates dropping even further, you have a spread effect as well. So, that made it a little bit larger than the sensitivity.

We also had some – I think the other thing to take into account is that as the UK, as the annuities are sold off, the denominator gets smaller. So, the ratios themselves get a little more volatile and the sensitivity have to be ratioed up a little bit for that. So, UK largely is in line with the sensitivities that we provided earlier.

On the Dutch capital situation, really, a lot of the market impacts that we've noted on the slide are, in fact, very much related to the Dutch situation. We've had a combination of really a lot of things going on collectively. It is a little bit difficult to break them all apart and look at them in singularity because there are some cross-term impacts of all these items. But mortgage spreads widened in the quarter. That was one of our larger sensitivities and we've highlighted that basis risk that exists between the volatility adjuster and Dutch mortgage spreads. We've had some credit rating downgrade, Finland in particular as an example, which came in and impacted the numbers.

And then interest rates, not so much from ALM perspective. We continue to be very hedged in terms of own funds in the numerator from an interest rate perspective but the impact on the SCR and the denominator. So, this would be second order impacts on credit risk, longevity risk, the risk margins. That is where the interest rate impact came from. And really all of the items that I just mentioned impact the ratio today, but they have the unwind effect that we mentioned earlier as well. They unwind into the future and the higher cash flows going forward. So, I think that's important to note when you look at the Dutch capital ratio situation.

Capital return was your third question. We're – in fact, actually, we've completed the bulk of the share buyback program already. In fact, the only part of the transaction still to go is the Association participation and that will be completed next week.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Just one thing on UK, going back to the UK. So, is this the problem mainly to do with the annuities business or are you facing that same issue with your other pension business as well? Because what I want to understand is, given that you have sold or reinsured large part of your annuities already, would that be a risk going forward or is it pure – that's what I want to – is it purely related to annuities or other businesses like pension or maybe a small with profit is also having a bit of impact?

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

It comes from three different sources. There is the annuities. That's true. There's also the staff pension plan and then it is this second order impact that interest rates have on things like risk margins and the other risks – for the that are remaining in the business. And it's really a combination of those three.

I think on the annuities, the only thing I would add to what you said was to keep in mind even though we've ensured €6 billion or about 60% of the annuities, we did lose the transitional benefits on that first reinsurance tranche. So, in terms of the actual impact on capital, there is still more to come as we look at the rest of the business that's there as well as when we complete the Part VII transfer in roughly nine months' time or so.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

All right. This is very good. Thank you.

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

Thanks.

## Operator

We take next question from Farooq Hanif from Citigroup. Please go ahead. Your line is open.

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

Hi, there. Thank you very much. Can you comment on what risks you see in remittance from the Netherlands given where the ratio is? You plan to start remitting capital from the Netherlands this year. And what would the timing of that be?

Secondly, you've had various acquisitions, disposals, reinsurance in the UK accounting change. I mean, I don't know it's useful to cut it now or to cut it offline. But just think it'll be useful to get a guide on what happens to earnings now? So, what's the BlackRock impact minus the annuities, just in the round all of these impacts?

And my last question is on DOL, you've given a lot more information than some other companies. It sounds like there's still some things in the air. What actual costs are you going to incur now? And what kind of product changes, distribution changes are you contemplating? Thank you.

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

Hi, Farooq. Let me take the first two questions. On the NL remittances, yeah, all I can really say here is we'll just continue to apply our capital policy. That's the best guidance I can give you. Now, it is true that we're now find ourselves towards the lower end of our target range instead of the upper end sitting at the 135% for the Netherlands. We do have some more work to do to fine-tune our sensitivities, and we'll coming back to you with new sensitivities for the Dutch business. That is also, in part, because we did change some of our hedge programs around in the quarter. So, we're working on updating our sensitivities. But, largely, what I would say is that we are focused on applying our capital policy.

The only thing I would add to that is what I mentioned to Ashik is keep in mind it's not just capital. It's not just about a point in time ratio. It's about a point in time ratio and the un-winded out ratio going forward. So, we do look at elements when the ratio is – and we've highlighted the ratio under Solvency II. We'll have some volatility. It will float up and down. But when you have the second order impacts that are going to unwind in the future, that's different than having what I would say loss permanent capital.

So, we'll take a look at what the cash generation is under the fact that these second order risks have moved against this. And we'll apply that against the new sensitivities, and we'll basically apply our capital policy. So, that's the best guidance I can give you there.

On the UK, I think your question was more earnings-related. In terms of – so, we have changed the – I think the most important thing is we did change the accounting policy as it related to how we're handling the three different books of businesses and particularly the DAC. The issue we were running into, if you remember, into last year was as we upgraded policies from the old pension business up into the platform, we were having to write off the DAC on that upgrade. So, we went ahead and wrote a lot of that off on the restated accounting policies in the fourth quarter of last year.

So, what that does is that gets us to something that is much more of a, I would say, sustainable earnings rate on kind of where we are now. There is an impact to earnings if we continue to sell off - as we continue to sell off the annuity business. And that will bring the run rate earnings down going forward.

I think we've given you some bogies on that, but we can follow-up with that offline. I think the third question on DOL.

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

Yeah. Farooq, indeed, you're right to point that we've tried to give you a bit more guidance than others have. One of the reasons is that we've been very closely involved in the whole process. We've been involved as a company but also as an industry. And the outcome, in a sense, we believe now is more manageable than we could have had earlier. And the reason is also that we have a longer transition period. And that means that people have more time to adjust. And this is one of the things we were most concerned about, that there would be a very short transition period and that would lead to a kind of paralysis, if I can call that way, of our advisors and partners. So, the longer transition period helps us.

We have actually started making our preparation for what we would expect the DOL rules to be as already of late last year. So, we've been looking at our products. We've mainly been looking at the way we sell our products going forward. So, let me take you now through the three areas, which I think are the most relevant.

Number one is retirement plans. In fact, our business in the U.S. is a fiduciary-friendly model with the open architecture. So, that essence - we will probably benefit, on a relative basis, by the fact that our model has been not only focused in terms of how it's positioned in the market, but also in terms how it's been very much focused in having a very cost-efficient administration capability and does not require the added income from the investment products. So that model actually is very well-positioned.

I also believe that it would lead potentially to a number of other players effectively come to the conclusion they don't have the scale because it's now more and more clear that's become a scale business and therefore acquisition of Mercer, very well fits in this and I believe we'll see more of the opportunities to consolidate these type of assets on our portfolio.

Now, in terms of the variable annuities, as you know, it's really the qualified part of the market that's been impacted. It's difficult to say what we see and expect there. And we've given you some guidance between 10% to 20% lower sales. And it is more to do with the fact that we believe that our distribution partners will just - probably take the time to really understand the rules, they will also have to take the time to comply to it.

On the other side, as we run our business, as you know, on a profitable basis, and we've adjusted our pricing already, this happens at a point in time that we already have reduced our market share in the market. And as a result of that, we don't expect - we therefore expect that the impact is going to be lower.

And then finally, the third element, which by the way is also at the heart of our strategy, as you know, pension money rollover means that we will have to adjust to that new reality. And we believe, therefore, that our managed advice which I've talked about many times already as being a way of helping our customers focusing on being prepared for retirement. And then once they are more prepared for retirement, to take the actions they need to be retired.

The death managed advice function is going to be more relevant now, in particular as we do there through what we commonly call, I think, robo advice. But these are digitally enabled capabilities that effectively allows us to collect with our 5 million plan participants in the U.S. So, that strategy is going to support a direction.

What I see happening here is probably longer retention. That means that customers will stick to their assets in the 401(k) for a longer parts. But ultimately, they will also have to make the choices to convert it in the form of income.

So, I hope I've been able to give you a bit more color. And also how this whole rules fit in our strategy. And I think the final point I need to say is that it's obvious that this will require work, adjusting our sales, adjusting our distributors and increase compliance cost, which we hope to be able and effectively absorb over a period of time. But, we started out effectively - are being ready for it last year.

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

Thank you very much.

## Operator

Our next question comes from Nadine van der Meulen from Morgan Stanley. Please go ahead. Your line is open.

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

Yes. Good morning, everyone. The holdco cash buffer, I believe, is around €1 billion. Can you give an indication of what the excess capital is in the U.S. over the AA requirement? So, that's the first question.

And the other question I had was, at the Investor Day, you guided to excess cash generation, I believe, it was around €600 million over a three-year time period. It was based on the €1 billion free cash generation expected over the year - over atypical year. The run rate that you show now this quarter, I suppose, is 0.2%. So, that's a bit lower. Can you comment on that expectation going forward? And I suppose that links in with Farooq's question around the €250 million that can be up-streamed out of the Netherlands.

And then, the last question I had was with regard to the yield assumption at the current 4.25% yield assumption that you have. Currently, the tenure is at 1.7%. What's the risk of lowering the assumption and is taking it quite a big DPAC charge on that? That's it. Thank you.

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

Okay. Nadine, I'll try to take those questions in order. On the U.S. capital, we're not disclosing the – some PAA excess anymore. We've moved over to RBC ratios as our primary capital metric in the U.S., and I think that fits better into how it comes across into the group Solvency II ratio. So, what I can tell you is actually RBC ratios are up a little from last quarter. We're at €480 million, and that's up from €460 million, €465 million, I think it was last quarter.

On the excess cash generation actually we're very much in line with the targets that we've set out before, I think you've quoted the €200 million being down from the €300 million, actually that's a free cash flow number, so that's after holding cost. So if you took that back to operational free cash flows that's the €300 million that we show on the opening in the presentation. That's very much in line obviously that's shown to one decimal point on a billions but that's very much in line with the €325 million expectation that we would get which is the €1.3 billion that we're expecting for 2016. So, I would say we're still very much ion track there certainly on a normalize cash generation basis.

Your third question was on the 4.25% long-term interest rate assumption in the U.S. I don't really see that a lot of risk in that assumption to be honest with you. It is a tenure assumption. So we rate their uniformly from the current curve to that number over 10 years. So, we start out at the 1.75% that we are now. We get their linearly over the next 10 years, I think that's a reasonable assumption and it's certainly in line with the market practice.

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

Thank you very much.

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

Yes.

## Operator

We take next question from Farquhar Murray from Autonomous. Please go ahead you line is open.

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

Good morning, gentlemen. Just one question from me. Actually, most of them actually been already dealt with. Just going back to the operational free cash flow in the quarter, you're reporting that as a kind of rounded €0.3 billion. I just wondered if you could actually just helped me quantify that in millions as in previous quarters. Probably because actually if

I look at slide six, I think if I took that number of 2 percentage points, which I presume is post the holding cost, so I'm looking at probably something more like €250 million. So any – just a little bit more detail would be helpful there. Thanks.

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

Yeah. Farquhar, yeah, I can help you out. I mean, we're showing it that way because, I mean, these are balance sheet moves quarter-to-quarter. So, we think kind of a rounded approach is a better way to look at it. But the short answer behind that is actually around €325 million. That's about where we came in on the first quarter. So, that is the more detailed number. But again, plus or minus €25 million, €30 million on that kind of roll forward is an easy swing factor, if you will. But we are, this quarter, in around the €325 million.

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

Okay. Super. Thanks very much.

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

Yeah.

## Operator

We take the next question from Gordon Aitken from RBC. Please go ahead. Your line is open.

## Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah. Good morning. Thank you. First question on – if you could talk about your Dutch DB experience in the first quarter. So, what – I mean, how many schemes are sort of up for renewal? How many are sort of continuing to go down the DB route for future accrual? How many are – and I know you're trying to shift to future quota hybrid or DC What was the experience there? Are you losing any to competitors just because they just won't take your prices? So, that's the first question.

Second one on the UK and the BlackRock deal. Just talk a bit about the revenue bits and the cost bits as it is at the moment. I mean – and if you won't tell me the your numbers, you can tell me is it currently profitable, that book? And I'm assuming that there's a big chunk of that, which is invested in BlackRock tracker funds and maybe what percentage that is. And what's your target? Presumably, the goal here is to increase the proportionates in your own asset management product. So, that's the second question.

And the third question, on the U.S., on the DOL, you said – I think in this presentation, you said no meaningful impact in the tax structure no impact on the back book. I mean, how can you be so sure that advisors won't revisit and maybe even some recent sales? Thank you.

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

Good. Well, let me take the questions on the pension business announced. As you know, interest rates do play an important role here. At this point in time, there is very limited movement in the DB schemes, and we'll see. Increasingly, customers are looking for opportunities to move from DB to DC.

So, the DB environment now is effectively more or less inactive. And that's also one of the reasons that you will see that not only have we been building up our PPIs or 401(k) or type or defined contribution capability, but we're also going to launch our APF, the new vehicle that is, what we believe, going to be a very good alternative for DB plans looking for a new home.

And we are about to launch it. I think we're waiting for the final approvals where we needed to. It's good to know, and I can share this with you because I'm pleased to be able to do so, we've already €2.2 billion of commitments into that new APF vehicle, which we believe is going to be the kind of alternative to the traditional DB schemes because effectively, it's something of a scheme which is a bit of both, DB and DC, but allows a transition that is a bit smoother than moving from DB to DC.

So, this way, you will see the focus of us as a leading provider pension, the leading provider of pensions in Netherlands. We are very well positioned. We are also consolidating our platform. So, when we had two PPIs, we're putting them together on one platform which allows us to be able to be very effective in terms of expenses.

Let me just try to answer your question on our statement that we made on the back book that we do not believe that our back book was really going to be impacted. Well, what we see is most likely is going to happen is more like paralysis from advisers where they will, first of all, have to assess what the new position is, go back to the customers. And that means that we'll see rather less activity than we see more activity and that is the reason why we believe also that our back book as such is not going to be very much impacted. The rules, by the way, going forward, is really about the fiduciary rule looking at sales going forward from the pension area.

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

Yeah. And on the third question on BlackRock, Gordon, maybe let me just - I'll just go right to bottom line question you're asking. Is it profitable day one? The answer is no. It's kind of a breakeven sort of proposition on day one. The opportunities are for us to then bring it in, merge your business together and take out some of the cost base. There's also some strategic elements of this in terms of giving us access to some propositions that we did not have before. So, on day one, it doesn't really move the numbers, but what it does is gives us an opportunity going forward.

## Q - Gordon Aitken {BIO 3846728 <GO>}

Okay. Thank you.

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

Just to put this into context of the U.S. and DOL, as we said earlier, the fact that we have done this Mercer acquisition which is very, by the way, very similar to what we're now doing with BlackRock already generated close to €2 billion of sales in the first quarter and this because it brings in new capability identical to what we just – Darryl just said on BlackRock to our U.S. business because in the U.S. we were mostly involved in the smaller and the SME schemes and now with the Mercer capability are also able to cover the whole market and cover the very big schemes which bring us a lot of new plan participants and that's at the heart of a strategy, not so much of focus on the schemes in itself but is to focus on the plan participants individually needing to find solutions for their retirement.

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

Yeah. Next question, operator.

## Operator

We take next question from William Hawkins from KBW. Please go ahead. Your lien is open.

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

Hello. Thank you very much. Good morning. First of all, that slide seven where you talk about reviewing the IFRS curve in the third quarter. Can you just clarify presumably that is when do you move it to the Solvency II curve or not? So, it's binary. I'm afraid I'm no good on the math on this, I mean if you were to move to the Solvency II curve, what exactly would be – well directionally, what would be the impact, given there's a change in the shape of the curve. I'm not even sure about the directional impacts, positive or negative?

And the secondly, the U.S. dividends, I think that slated to be a billion dollars for this year as a round number. How should I be thinking about that second quarter versus first quarter? I'm basically assuming 50/50 but obviously, fourth quarter was low last year because you didn't need the cash. So I'm not sure about whether it's reasonable to assume 50/50 or if there could be some skew?

And then finally, I hope, briefly, given the point you were making about the weakness of VAs because of daily averaging. Presumably, it's the statement of the obvious with the second quarter should be stronger as a result of that, if you could just confirm?

And if we were sort of starting at the – where the markets have been in the first month, what would be the natural bounce back of moving from the daily average to what we really the out-quarter (39:14), in the quarter? Thank you.

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

Hi, Will. It's Darryl. I'll try and answer your questions. The first one, IFRS, yes, you're correct on the binary decision. We're looking at – I guess it doesn't have to be binary. It could be any other curve, but what we're analyzing and looking to move is the IFRS curve much closer to, if not on top, of the Solvency II curve. And, really, that will – for, really, the sole purpose of trying to take our IFRS volatility down so that we get a matching of our IFRS results with actual hedge programs that are in place which are there to protect Solvency II basis, so, yes, it's IFRS to Solvency II.

What will that do? I guess, generally, that will lead to a positive in doing that curve change, but that's something that we haven't quantified in size and that's something that we're analyzing now. So, I can give you a directional component only on that one at this point.

U.S. dividends, yes, 50/50 is a good expectation and the $1 billion dividend for the year, 50/50, first half/second half, is a good number to work with.

And then, finally, on the daily averaging, yes, your math is right. We ended the quarter higher, and so we enter into Q2 with higher balances as long as we don't have a similar sort of dip effect. We will, at least, earn back the earnings drag that came from the decline, if you will, throughout the quarter. That's going to be – it varies by product line. Most of the dip was on the variable annuities, also some on the pension and the mutual fund in the business. In total, be around €20 million or so would be a high level number I would put on that.

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

That's very helpful. Thank you.

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

Yes.

## Operator

We take the next question from Mark Cathcart from Jefferies. Please go ahead. Your line is open.

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

Yeah. Hi. It's Mark Cathcart from Jefferies. I've got three questions for Darryl. The first one is if at the January Investor Day you would have been presented with the financial market evolution that then happened between that date and March 31, would you have been able to predict the Dutch Solvency ratio of 135% or would it have been better than that on your analysis, what you know at that stage relying (41:43) on your sensitivities?

The second question is, a year ago I think you commented on this conference call that you are positive or you thought there was going to be a benign outcome for Q3 modeling charges. And obviously, it wasn't benign. Would you say you're more or less confident than you were at the first quarter last year on the outcome for Q3 this year?

And then, the third question is you operate in 25 countries. If we knock that down to 22, so we knock off the UK, the U.S. and the Netherlands, of those 22 countries, how many are you actually generating cost of capital? Thank you.

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

Mark, just before I answer, you cut out on the last question.

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

Okay.

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

The line cut out. When you cut down to 23 countries and then your line cut out after that. Sorry. Can you repeat that?

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

Yeah. Okay. So the question was how many – in how many countries are you generating your cost of capital or above in those 22 countries?

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

Oh, okay. Okay. Okay. Let me go back to the first question. In terms of the Dutch capital position, how much of this -

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

You mentioned about singularity was difficult, I think. So, as your comment, the singularity was difficult, so I'm just trying to work out if you knew what the outcome was going to be?

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

Yeah. I think and – of course, in January, we never know where the Dutch mortgage spreads are going to end. And some of the cross impacts you get into. So, the Dutch mortgage spreads are wider. And I would say we're about to -

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

No. Sorry, Darryl. The question is if you'd have known what was going to happen in the first quarter would you have come out with that number of €135 million? In other words, given what happens, was the €135 million predictable? That's what I'm trying to get to?

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

Yeah. I guess it's a difficult question to answer. I think largely if I knew everything that in know now in hindsight could I have gotten to the right number. I think the answer to that question is yes. I'm trying to -

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

So, your sensitivity is performed as you expected them to?

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

Yeah. I will say we are updating the sensitivities for some of the hedge program changes that were made throughout the quarter. So, we are going to and I am flagging here that the Dutch interest rate sensitivity will be higher than what we have on those sensitivities. And that I think is clearly laid out in the presentation.

I think there are impacts to the capital ratio that you cannot capture in the sensitivities themselves. So, when you get into some of the credit downgrades and migration, those aren't easily captured in the sensitivities that we provided. Where I was going, when I started to answer the question was that dropping of interest rates has an impact on mortgage spreads if the consumer rates don't follow because of our methodology that we've landed on and how we compute the fair value of the Dutch mortgage. So, there's cross-term impacts there.

So, there are a lot of cross-term impacts that is difficult to put on a single page of sensitivities which is what we shared you in January. So, I mean the broad answer is, yes, in perfect hindsight, we would have got to the same number. But is all of that captured on the sensitivities that you have on a single page. No, because there are some cross-term elements that have gone against so there's basis risk that's gone against us in this quarter. So that's – I don't know if that's answering your question or not, Mark, but I think -

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

I'm just trying to get a handle on how much in control you are of your Solvency II rate for the Netherlands. And what you're suggesting is cross-term impact or something that you're not really too sure how they're going to evolve, so you're not quite in control of your Solvency II ratio outcome from the Netherlands?

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

Well, it is a complicated calculation, I can tell you that. And that there's a reason I'm not giving you sensitivities here today is that we do have quite a bit of work to do to do modeling on the SCR and all of those cross term impacts.

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

So, if your Solvency II ratio did go below 135% by, say, the end of Q3 as of 128% or 132%, would you still upstream that €250 million of cash? I presume not.

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

Yeah. So, I'll go back to the question that I answered earlier. It really is applying our capital policy. But because our sensitivities have gone higher, we have to go back and relook at that capital policy. But we're currently in the green zone of our capital policy. But I've also flagged that we need to go back and look at sensitivities to make sure that the capital ranges in zones that we've identified for the Dutch business still fit within the capital ratio.

So, the capital policy is laid out to give, hopefully, certainly internally from a governance perspective, but also externally, a good understanding of where we are from our ability to upstream dividends. So, we are towards the bottom end of that range, and the sensitivities are increasing. So, that's the part that we have to go back and analyze. So, I can't give you a definitive answer on the NL dividend for this year until we go back and complete that work.

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

Okay. Thanks. Well, that's the first question.

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

Your other question on assumption you've reviewed for Q3, yeah, again, as I sit here in the first quarter, I'm not anticipating anything coming out of the third quarter. Assumption review in the last two years, we have dealt with a mortality issue in terms of bringing in a new mortality curve in the U.S. to deal with older age mortality. The good news is, I think, here in the first quarter actually mortality exceeded our expectations. We were off our annual run rate, but not as far as what we would normally expect because of the seasonality effect. So, while we might normally expect about a €30 million deterioration, we only saw €14 million in the first quarter as an example. So, I think, the mortality is tracking okay.

In terms of the assumption reviews that we had, we also had an update to the universal life persistency assumption as last year. We've completed that work and there's nothing else that I'm anticipating for the third quarter but, of course, I can't give you definitive assurance, otherwise, we'll go through our normal actuarial process of reviewing all of our assumptions and that will be – that's activity that started now and we'll carry on into the summer and we will announce it in the quarter.

The last question, I don't have an exact number on the €20 million – I have to go back and add up whether the €22 million was right or not. But -

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

The reason I asked that question is because the new way that you're showing your numbers – which is now done on a continental basis. So, it's U.S., Europe, Asia suggests that you're seeing yourself as a global company rather than a U.S., Dutch, small UK company and I'm just wondering how on top you are in terms of the delivery of all of these countries in which you operate and that's the reason for the question.

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

And some of the answer lies in the maturity of these underlying businesses as well. So, if you start in the Central Eastern European region, the majority of those countries are in fact, returning good returns, dividend paying to the group, and hitting our cost to capital. I think Turkey would be an exception to that but also is one of our newer faster growing region. So, we see that as an investment for growth for the future and the rest of them are more mature in developing and returning profits.

Spain has been a turnaround story for us as we have changed out the distribution and entered into the new relationship with Santander and that's a – so that's a different recovery, and we're very much on track for developing or delivering on our business plans there.

When you get into the joint ventures across Asia, the story is a little bit mixed. The most mature of those businesses is the high net worth business which was an ex-Transamerica business. That's profitable and hitting our returns. The newer JVs in China, India, Japan, for instance, are not hitting our returns and not hitting our return on capitals. So, there is a mix story, but for very good reasons across each of those different geographies.

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

I'm sure the reasons are good, but other companies have put it from noncore periphery operations and just wonder if Aegon might go down that path.

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

I guess maybe I could – the only thing I would add to that is something we evaluate on all our businesses at all times. And when we do go in a different direction, then we will let you know.

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

Thanks.

## Operator

We take next question from Matthias de Wit from KBC Securities. Please go ahead. Your line is open.

## Q - Matthias de Wit {BIO 15856815 <GO>}

Yes. Good morning. Three small questions, please. First on the Dutch capital position, just wonder whether there's anything you could do to optimize the ratio. In the past, you concluded a number of longevity swaps but, to my understanding, you did not yet get any capital credit for them. So, is it still something you would expect and is there anything else you could do to optimize or boost the ratio going forward? So, that's the first question.

Secondly, on the DOL, you guided for an impact on VA sales and higher implementation expenses. Is there anything – is there any offset from cost savings? And could you maybe share whether you see any negative impacts on earnings and also comment on the timing of any such impacts?

And then the last question is on the U.S. capital position. Is there anything you could share on how much of the quarter-on-quarter increase in RBC was driven by the drop in interest rates because to me that looks like a non-economic gain to the capital position. And just wonder how much of that you could remit to the holdco in the form of dividends going forward? Thank you.

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

Yeah, Matthias. I'll take the first and the third. On the NL capital ratio, is there more we can do? Yeah, there is and we continue to look at that. So, we continue to look at laying longevity off into the market that we've been clear about that from a strategic objective as well as capital optimization. So, that's something that you will continue to see us deliver on as we go forward.

And then on the U.S. capital position, on the RBC ratio, I don't have the exact number on how much it was benefited from the interest rates. There was some modest uptick because what happens in the U.S. is the derivatives that we have to protect against low interest rates generate statutory earnings in the U.S. That has sort of a positive inflation to the ratio.

But in terms of the contribution into the dividends, the reality is we are really in a strong excess capital position in the U.S. and definitely in dividend paying mode. So, even despite that uptick, which is sort of non-economic as you say, which is probably a fair statement, it doesn't change the dividend outlook from the U.S. given where our capital ratios are and where our cash generation out of the U.S. is coming from.

The DOL?

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

On the DOL, Matthias, I just would like to add that the implementation is for certain parts of the rule April 2017; and other parts of the rule, the end of 2017. So, that gives us quite some transition, which I've referred to earlier.

Now, in terms of expenses, additional - not expenses, the only answer I want to give you is that we have made a clear commitment to reduce expense by €150 million by 2018, and we stick to that.

## Q - Matthias de Wit {BIO 15856815 <GO>}

Okay. That's very clear. If I could just come back on the Dutch capital position, on longevity swaps, for example, do you have any idea when we could expect any news on - in terms of capital credit you might get or - and what other discussions you're currently having with the DNB in that regard?

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

Yeah. It's actually a two-part answer, and thanks for the question. We are still working with the Dutch Central Bank to get internal model approval for our longevity risk-based capital. That was sort of one of the day two items that we put on the list of this year. So, there still are some opportunities that we have in terms of expanding scope of our internal model. We had de-scoped it last year just because of all the work in the time line. So, there are still some scope expansions to our internal model that we're working on for this year. That will allow us to take credit for some of the longevity transactions that we've already done, that we haven't got full credit for.

And then, in terms of more deals, in terms of laying off longevity into the market, that's something we're currently working on now. And I would expect - I can't give you an exact time line, but somewhere in the next two to three quarters, you'll probably see something else from us transaction-wise.

## Q - Matthias de Wit {BIO 15856815 <GO>}

Okay. Thanks a lot.

## Operator

Our next question comes from Bart Horsten from Kempen & Co. Please go ahead. Your line is open.

## Q - Bart Horsten {BIO 2390919 <GO>}

Good morning. Thank you for taking my questions. First of all, on the Dutch capital position, an add-on question. Do you exclude the possibility that you may have to do a capital injection for your Dutch life activities?

My second question regards to your holding cash position. Could you remind me on the target level you have there? And in the press release, you also said that there was a capital contribution to the operations of €100 million. Could you tell us which activity is that related to? And will the holding cash position, going forward also still be impacted, for instance, by purchase price you paid for the BlackRock activities?

And my final question is on the alternative investment portfolio where you mentioned a write-down. And could you tell us the size of that portfolio and what we can expect going forward in that portfolio? Thank you.

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

Hi, Bart. This is Darryl. Let me try to hit those questions. The way I would answer your NL capital injection question is the way I answered the dividend question earlier, which is we'll apply our capital policy in the Netherlands. We're still in the green zone of our €130 million to €150 million target zone for our subsidiary levels, albeit at the lower end now. We do have some work to go back and check our sensitivities and make sure that those are the appropriate ranges for us to continue to run in. But at this point, I'm certainly not foreseeing any capital injection into the Netherlands business. So, I guess I would just say it that way.

On your second question, if I captured it all correctly, it was holding-related. We do target €1 billion to €1.5 billion. That's our stated target for excess capital in the holding. We're at €1 billion now.

In terms of the movement in the quarter, there was about €100 million total, a little less than that that went into units. They were really small increments that went in, in several different places to a couple of our joint ventures in Asia, and a small amount into our unit in Spain for our expansion into Portugal, and a little bit into Ireland were we are selling the guarantee product, the guarantee VA product. So, it was a little bit across four different regions which added up, I think, to a total of about €80 million, rounded to the €100 million on the slide.

And then BlackRock, there really is no purchase price associated with BlackRock. So, there was no impact on the holding excess cash from the BlackRock transaction.

Your last question was on the alternative portfolio. The alternative portfolio in the U.S. is about €2.4 billion, of which about €1.8 billion or so is currently in hedge funds. The rest is in private equity and real estate alternatives. We are targeting to reduce the hedge fund component over time and transition more into private equity and other alternatives. So, I think the €2.4 billion will stay, but €1.8 billion of hedge funds will come down over time and be replaced.

## Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

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

Yep.

## Operator

Next question comes from Nick Holmes from Société Générale. Thank you.

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

Hello, hi there. Thank you very much. Just two very quick questions. First is coming back on DOL, do you expect any boost to VA sales in the next 18 months before the new regulations are implemented?

And secondly, just looking at the variable annuity book, if hypothetically the S&P 500 U.S. equity markets were to be flat for a couple of years, how well-positioned do you think you are? I'm thinking the net amount of risk if you look at it for your book is actually good by comparison with peers. And I wondered do you feel fairly comfortable if there is pressure in equity markets? Thank you very much.

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

Nick, as I've said, I don't believe that we'll see a boost into USA. You're probably referring to kind of the fire sales before the – the rules change. I believe, on the contrary, most people would just wait. I see more something like paralysis in how advisors are you going to behave. They certainly would not want to take an action that then can be seen as not being in line to the implemented the rule. So, I'm certainly not seeing that.

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

Okay, I think – I've got -

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

On the second question, how do we feel about flat equity markets on the VA portfolio. I mean, I think we feel quite okay. I mean, the reality is we have hedge program in place. We have really 100% of the equity delta exposure hedged on all of our VA business. And so, from a guarantee risk perspective, we're really agnostic to movements in equity markets as it relates to the VA business from sort of a – we are – we do have some revenue at risk if you will in terms of a and you saw some signs of that this quarter as the equity markets went up and down, you have a little bit of more that mutual fund revenue that fluctuates but in scenario you described as a flat equity market but that wouldn't be an issue in that scenario. So, I don't really see it as an issue.

In terms of the net amount at risk, we – the total net amount at risk for the book is around €3.8 billion. So, I think I agree with your comments that's not a – certainly not the largest that's out there.

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

Okay. That's very useful. Thanks very much.

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

Yep.

## Operator

It appears there's no further questions at this time. I'd like to turn the conference back to your host for any additional or closing remarks.

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

I would just like to thank you all for participating in this call and obviously for your continued interest in Aegon. Look forward to seeing you all very soon. Bye-bye.

## Operator

This concludes today's call. Thank you for your participation. You may now all disconnect.