Aegon NV US Strategy Update

Company Participants

- Alexander Rijn Wynaendts, CEO & Chairman of the Executive Board
- C. Michiel van Katwijk, Director, Executive VP,CFO & Treasurer
- Jan Willem Weidema, Head of IR
- Mark William Mullin, Member of the Management Board

Other Participants

- Benoit Petrarque, Head of Benelux Equity Research
- Cor Kluis, Analyst
- David Kenneth Motemaden, Research Analyst
- Hadley Cohen, Research Analyst
- Heather Takahashi, Analyst
- Joel Gross, Analyst
- Johnny Vo, MD
- Marc Cohen, Analyst
- Robin van den Broek, Banca di credito finanziario S.p.A., Research Division

Presentation

Jan Willem Weidema {BIO 15133400 <GO>}

Good morning, everyone. On behalf of the entire team, I would like to welcome you to Aegon's Analyst and Investor Conference. We will start with 3 plenary presentations, beginning with our CEO, Alex Wynaendts. He will update you on the progress we've made on executing on our strategy and delivering on our financial targets. Then, Mark Mullin. And Michiel Katwijk, the CEO and CFO of Aegon business here in the U.S., will take you through the most recent developments and outlook for Transamerica. Together with Alex, they will take your questions after their presentations. Subsequently, those of you who are present here today, we got ample time to discuss the developments and prospects of our U.S. business with a wider U.S. management team during the breakout sessions.

We would appreciate it if you take a moment to review the disclaimer on forward-looking statements at the back of each presentation. And with that, I would like to hand it over to Alex.

Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Thank you, Jan Weidema. Good morning to all of you. And also good morning or good afternoon to the ones joining here through the webcast. So it's great, see lot of familiar faces here also in New York. And I'm pleased to be able to present today with our U.S. team. So our U.S. team today and I are looking forward to take you through our strategy. But also sharing with you how we will grow our business and create value for all our stakeholders.

So I will start by providing you with an update on the progress we've been making on our 2018 group targets, then I will highlight the very strategic steps we've taken to simplify business and support future growth across the group. And thereafter, I'll hand it over to Mark and Michiel, CEO and CFO of our U.S. business. Mark and Michiel will focus on Transamerica and further outline how we are well positioned to capture the attractive growth opportunities here in the U.S.

In addition, they will discuss the financials, including capital management and capital generation. So let me start by taking you the progress we've made as a group over the last couple of years.

We have simplified our business through a series of divestments, simplification of legal structures, particularly in the U.S. and through significant cost savings and capital efficiency measures. In addition, we have solidified the group's capital position and increased the group's capital generation.

The increased capital generation across our various units, not only results in sustainable and diversified remittances to the holding. But it also is the foundation for future growth as we invest a significant part of our capital generation back into our own existing businesses.

Furthermore, we have significantly reduced our leverage ratio in recent years, which has resulted in lower funding expenses and increased financial flexibility. As a result of these management actions, we have made strong progress on our 2018 financial targets, on which I will elaborate further shortly.

I'm also pleased with how we are transforming our company into a technology-driven and agile business, as a result of which we are now better placed to help our customers achieve a lifetime of financial security. And that's our purpose, that's why we're here for. And I'm proud how we are helping almost 30 million customers around the world.

I would now like to move on the next part of my presentation and highlight actions we are taking to simplify and grow our business and how this leads to a sustainable increase in our capital generation.

As you can see on this slide, we have made substantial progress over the last couple of years in optimizing our broad portfolio of businesses. We will continue to rationalize our geographical footprint by focusing our resources on our key markets. Since 2016, we've exited the insurance operations in another 3 countries. In addition, we have sold our noncore businesses in our main markets, such as the annuity book in U.K., our broker UMG in Netherlands and Transamerica Financial Advisors here in the U.S.

Also in the U.S., we have reduced capital allocated to our runoff businesses by $1.3 billion, exceeding our target of $1 billion, a full 12-month ahead of our 2018 target. And we were able to complete these divestments on average close to book value, representing attractive valuation.

By targeting specific acquisition opportunities in our key markets, we've also been able to attract millions of new customers and EUR 100 billion of additional assets. These acquisitions add new capabilities and scale to existing businesses where we have leading positions and where we can leverage existing infrastructure. A good example outside of the U.S. is the business transformation we've implemented in the U.K. By selling our annuity book. And by acquiring Cofunds and BlackRock's DC business, we have transformed our business from a largely traditional pension business into the leading platform business in the U.K with some GBP 120 billion of assets under administration.

In addition to optimizing our portfolio businesses, we're also rationalizing our legal structures. This will give us 3 material benefits. The first, by simplifying the legal structures, we're reducing complexity. Second, we are generating additional expense savings. And lastly and third, we're freeing up capital. Up until now, we have released $1 billion following the recently announced elimination of a variable annuity captive in The United States. And we intend to further simplify U.S. operations by merging 2 of our life insurance companies in 2019. This is expected to generate a one-time capital benefit of approximately $200 million as a result of diversification benefits. And Michiel will elaborate further on this in his presentation.

We are also creating value through optimizing our in-force business. And I would like to share just a few examples of how we are managing our in-force business for value. We have reduced expenses and will continue to do so. And by the end of 2018, we expect to achieve our EUR 350 million group-wide expense savings target. In addition, we expect to generate a total of GBP 90 million of expense savings in U.K., following the integration of Cofunds and following the recently announced outsourcing agreement with Atos. To date, we have realized over GBP 20 million of saving related to the Cofunds' integration.

Another example is in Asia where we have upstreamed $200 million to the group in 2017, following a capital efficiency program in a high-net-worth business. Furthermore, we have restructured our direct marketing business and activities in other parts of Asia as a result of which Asia is now positively contributing to the group's capital generation. And in the U.S., we are, as you're well aware, actively pursuing rate increases on long-term care policies and also increasing the monthly deduction rates on certain blocks of universal life products.

So as you can see, in the past years we've worked hard on rationalizing our portfolio businesses and on protecting and enhancing the value of our in-force business. As a result, we are now in a strong position to focus our efforts on growing our business in all our key markets.

And on the next slides I will summarize what steps we are taking to grow our business in our key markets.

Through outsourcing, technology upgrades and the consolidation of administrative systems we are not only simplifying our back office systems and generating significant efficiency gains. But very importantly we're also modernizing our business that allows us to drive future growth.

Let me give you just a few examples from our largest business units. Here in the U.S., we are partnering with TCS on the administration of life and annuity policies. As part of this transaction, these policies will move from 26 existing administrative systems to one modern target system. And the U.S. team will talk more about this.

In the Netherlands, we're consolidating the administrative -- administration of pension products onto the systems of our well-regarded specialized subsidiary called TKP.

And in the U.K., we have developed a market-leading platform to serve advisers, employees and individual customers. As I'm sure you're all aware, we are now migrating Cofunds' customers to this platform.

We've also recently announced an extension to the agreement we have with Atos to service and administer our non-platform customers. And I will share more details about this on the next slide.

All these actions represent major strategic steps forward as we're able to take out expenses, free up resources, to focus on improving customer experience. But also to -- on reducing the time to market for new products.

So 2 weeks ago, we announced an extension of our partnership with Atos with an agreement to service and administer our non-platform customers in the U.K. This agreement is beneficial to all stakeholders as we will, further improve customer service for some 1.4 million customers, deliver significant financial benefits. And we will be able to retain jobs in the region in Scotland, in Edinburgh, as approximately 800 people will transfer to Atos.

As a result of this transaction, we expect to realize annual expense savings of GBP 30 million within three years or over GBP 400 million of the duration of the contract. And this corresponds to approximately a 40% reduction in cost per policy.

On the Solvency II basis, we expect to realize an additional capital benefit of over GBP 100 million over the coming years. Another important benefit of outsourcing when compared to the alternative of selling the book of businesses is the fact that we'll continue to be the asset manager for this business. And as a result, we are retaining Asset Management fees of approximately GBP 25 million per year.

Going forward, we will continue to invest in modernization and growth, the growth opportunities on which U.S. management team will elaborate further in their presentations, are in 3 core areas: one, the workplace market in which we are offering integrated solutions to our customers by leveraging product knowledge, scale and market-leading technology across all our businesses; two, the individual market, where we're launching new innovative products and adapting pricing to improve our competitive position, while at the same time we're still meeting our internal hurdle rates and payback period requirements; and 3, advice, guidance and experience where we want to strengthen our relationship with our customers by increasing advice we offer across all products.

We have established ourselves in recent years as one of the few companies here in the U.S., that offers a full suite of products. And this enables us to roll out our wealth and health strategy and provides us with a distinctive competitive advantage.

As you'll hear from Mark and his team, this strategy resonates well with advisers, employees and customers. And we're introducing the successful concept into our key other markets around the world.

As I hope, I made clear on the previous slides, there are many benefits in simplifying our business, such as increasing efficiency, reducing operational risk and freeing up resources that we can better use elsewhere to improve customer's experience. This will allow us to focus our efforts on growing our business by increasing revenues and profitability. Growing our business is key to sustainably increasing capital generation and ultimately remittances to the holding.

And Slide 10 clearly shows that we have significantly increased our capital generation. Business growth and in-force management lead to an increase of our capital generation to EUR 1.5 billion. As a result, the level of free cash flow as a % of SCR has now grown to 15%. In recent years, we significantly increased our Solvency II ratio through business rationalization, divestments. And de-risking. All our main units are now within or above their target zone, providing a robust foundation to remit capital to the holding.

The management actions we've taken also lead to a strong increase in the quality of our capital. The unrestricted Tier 1 as a percentage of SCR increased over 40percentage points to 150%, since the implementation of Solvency II in 2016.

And in addition, we have successfully reduced our leverage ratio to the lower end of the target range in 2018. And over the coming years, the leverage ratio is expected to gradually reduce further.

On Slide 11, you can see that we made strong progress towards achieving our 2018 financial targets. As of the first half of 2018, we have realized EUR 325 million of run rate annualized expense savings. The U.S. will most likely fall somewhat short of the $300 million target for year-end, 2018. However, the shortfall will be made up, Netherlands keeping us well on track to achieve our target of EUR 350 million.

Furthermore, the money management actions have allowed us to increase capital return to our shareholders in line with our EUR 2.1 billion target. And in terms of return of equity, we've had headwinds. In 2017, we injected EUR 1 billion in our Dutch business, leading to a higher level of capital than we had foreseen. And we've also experienced lower sales momentum and delays in the integration of Cofunds in the U.K.

Despite these headwinds, we've been able to increase our group return on equity and have made significant progress towards achieving our 10% target. At the presentation of our second half 2018 results in February, we will provide you with our new group targets.

So before I hand over to Mark, let me briefly share with you why we are excited to have such a strong franchise in The United States. Transamerica is uniquely positioned in the U.S. market and makes a very significant contribution to the overall group. In line with the group's return equity target of 10%, the U.S. achieved a 9% return on capital. The U.S. business increased its capital position significantly, with an RBC ratio of 490% at the end of the first half of 2018. And this is one of the key drivers behind the solid capital position of the group.

Significant remittances from the U.S. business over the course of the year supports the capital return to our shareholders. Our U.S. business remitted $13 billion to the holding since 2010. Transamerica is a top 10 insurance and retirement company in what is the largest and still growing financial services market in the world. And last but not least, Transamerica is an iconic and trusted brand with around 7,000 skilled employees, servicing over 13 million customers who trust us with their financial wellbeing every day.

And these are just a few reasons why I am proud of our Transamerica franchise. And I hope that through the day presentation and by answering your questions, we can confirm why our business is well positioned and why we are very confident of our prospects as we look to the future.

So thank you, again, for your interest. And it's now my pleasure to hand it over to Mark. Thank you. Thank you.

Mark William Mullin {BIO 16344493 <GO>}

Thank you, Alex, for the kind introduction. Good morning to everyone here in the room and those on the webcast. As Alex mentioned, Transamerica has contributed strongly to the group's financial performance. After rightsizing and transforming the organization, now is the time to invest in modernization and pivot to growth. In sum, Transamerica is at an inflection point of accelerating growth.

In the next 20 minutes, we will take a brief look back at what the U.S. promised and importantly, what we delivered. Then we'll spend the majority of our time together looking forward to where we go from here.

Let's quickly review what has been delivered over the last three years. In 2016, we introduced our 5-part plan to accelerate delivery of our 2018 targets. We have successfully executed on the plan, which encompassed in-force management, new business and revenue, optimizing the portfolio, location strategy and efficient organization. We've listed here some of our key achievements, with more details available on the slide deck for the breakout meetings.

I will now walk you through our progress on the 2018 targets. Starting with operating -- adjusted operating expenses. Our end of 2018 goal was for run rate savings of $300 million, which I will remind you was a doubling from our initial goal of $150 million. As of the first half of 2018, we had achieved $277 million. But as Alex mentioned, we will most likely fall somewhat short of the $300 million target. Having said that, as Alex indicated in his presentation, due to actions elsewhere in the group, group targets will be met. The full EUR 350 million will be delivered.

Transamerica's contribution of EUR 350 million approximates 70% of overall group savings. Moving on to reduction in IFRS capital, allocated to the runoff businesses, we have exceeded the target with allocated capital declining by 1.3 billion since the end of 2015. This was largely driven by dispositions in 2017 and in 2018, which resulted in 850 million dividends to the group. Next is normalized capital generation. Our goal was $1 billion. But we're expecting $1.1 billion for 2018, which, again, represents about 75% of capital generation from all of Aegon's units.

In his presentation today, Transamerica's CFO Michiel van Katwijk, will provide a deeper look at capital generation as well as a look forward at our future expectations.

Our final target is return on capital. And it is one that we are especially proud of. We achieved our end of 2018 target of 9%, 2 quarters early, reaching that milestone in the Second Quarter of this year. Looking at our RoC progression. Successful execution on our five-part plan and other initiatives has resulted in sequential year-over-year improvement. As Alex mentioned, we've increased RoC by 250 basis points since 2015. Going forward, we expect earnings to continue to trend upwards in line with new business growth, which will be balanced by investments in the new business, while capital is expected to remain roughly stable as a result of a high remittance ratio.

As Alex mentioned in his presentation, since 2010, Transamerica has remitted more than $13 billion to the group. This was my management team. They've achieved a lot and they're happy.

With that brief lookback at what Transamerica has accomplished, we now turn to our strategy for the future. In sum, now is the time to invest in modernization and for the company to pivot toward growth.

Transamerica's purpose is to help people save, invest, protect and retire. And to be relevant throughout the lives of our customers and our advisers. We connect with our customers through the workplace, through offering individual products. And we deepen and broaden our customer relationships through the offering of advice, guidance and education. Our strategy in the workplace is to standout with compelling brand narrative and integrated solutions. You will hear more in the upcoming slides about our wealth and health strategy, which is competitively distinctive from the financial wellness programs and initiatives now commonplace among our peers.

Our integrated solutions include offering bundled pricing when plan sponsors choose to include both Transamerica's retirement plan administration and voluntary benefits. This is a market-first. We are the only company to have a platform that contains both and this program has been already improved in 43 states. We'll talk more about this in the breakouts.

In individual, we are investing in growth through the launch of innovative products and more competitive pricing across a range of customer solutions. In advice, guidance and experience, our strategy is to maximize the value of the initial sale, for Transamerica as well as our customers, thus building loyalty and increasing Transamerica's relevance throughout our customers' lifetimes.

Market drivers have led to changes across the value chain and the pace of change is accelerating. I will highlight a few of these for you now. The regulatory environment is evolving and evolving quickly. But I want to emphasize that we support an enhanced standard of care and greater fee transparency, as we believe that's how we can best serve our customers' needs. As is true across industries, in our marketplace, maintaining a competitive

(technical difficulty)

requires investment in technology. The benefits though are both significant and wide-ranging. And encompass enhanced scalability, process optimization and better overall customer experience. For example, use of data analytics can replace the outdated and onerous underwriting process that exists today.

Additionally, rising interest rates are improving product economics and providing us opportunities to enhance overall customer value, we have already made product enhancements to our variable annuity and life insurance offerings, with more to come if interest rates continue to trend upward. In terms of customer demand, I can tie together both employers and individuals as there are common themes. Demand for personalized offerings, pricing and recommendations, all wrapped in an enhanced buying experience is as true for our industry as it is for many others.

Finally, I'll remind you of the increasing need for guaranteed income as more people, the baby boom generation, moves towards retirement. I remind you here that this is the only industry that can provide such guarantees. And Transamerica is extremely well positioned to do so.

These industry drivers and the evolving landscape require decisive moves to separate Transamerica from peers and position us for accelerating growth. Transamerica has responded with bold decisions and management actions. And we have a multifaceted modernization initiative in place to position us for sustainable growth. These include our partnership with TCS, successful simplification of our legal entity structure and product suite. And our plan to build on our competitive strength through leveraging data, innovation and analytics.

I will start with reminding you about our partnership with TCS, which was announced this past January. In the largest third-party administration and transformation transaction in U.S. history, we have successfully transferred the administration of our life and annuity business to TCS. More than 10 million policies will be serviced and administered by TCS. And new business will be written on the bank's platform. About 2,000 of our employees were transferred to TCS in April. And I'm pleased to share with you that 98% of our colleagues who were offered positions with TCS, decided to join TCS. This ensures the quality and continuity of service to our in-force customers.

State-of-the-art administration systems are foundational in Transamerica's digital strategy. Partnering with TCS allows Transamerica to replace legacy administrative systems, while positioning for how business will be done in the future. Doing something bold and different separates Transamerica from the pack. Using their bank's platform, TCS will take on the service and administration for Transamerica's life, annuity, supplemental health and voluntary benefit business.

Transamerica retains service and administration for our retirement plan administration business, IRAs, mutual funds, SVS or synthetic GICs and for our advice center. The ability to reduce expenses is an additional benefit for this partnership. We expect 70 million of annual expense savings initially, rising to 100 million over time.

However, it is crucial to appreciate that our partnership with TCS is much, much more than delivering cost synergies. The TCS platform was a strategic decision, significantly designed to accelerate our growth, allow us to enhance product development, reach the market more quickly than our competitors, while at the same time, enhancing the experience with state-of-the-art technology and capabilities.

The platform improves our speed to market and increases flexibility to make product changes in response to changing economic environments and the competitive landscape. The bank's platform also accelerates our ability to deliver an exceptional customer experience in a fully digital end-to-end format, while providing a modern and secure infrastructure. While the expense savings are indeed an important element of the partnership with TCS, the key benefit is the ability to execute our digital strategy and accelerate growth.

Investing in data and innovation and analytics is another aspect of our initiative to propel growth. We are designing for the future with far-reaching initiatives to modernize products, processes. And increase customer and adviser engagement. To focus on just 2 benefits we expect from our investments, in 2019, we'll be launching accelerated underwriting for life insurance, driven by data and analytics. Underwriting modernization, which includes testing nonmedical data sources will reduce throughput time, increase our policy placement rate, while providing a customer-centric experience.

Secondly, process optimization will spotlight opportunities to further reduce expenses throughout our company. You'll learn more about this in our breakouts with Blake Bostwick, our Chief Operating Officer and David Montgomery, Head of the Individual Operations.

I am going to move on to our brand proposition, where Transamerica is leading the industry with competitively distinctive brand narrative. The link between wealth and health is undeniable. The bottom line is that health issues can have an enormous impact on family finances. Health care costs are rising faster than incomes. People are living longer. And customers want a new breed of financial adviser, while securing their future both financially and physically.

Unlike the financial wellness initiatives that are now commonplace amongst our peers, Transamerica's brand positioning focuses on the intersection of wealth and physical well-being. By emphasizing the connection between physical and financial well-being, Transamerica is changing the conversation advisers are having with their clients and creating a differentiated experience for both customers and their advisers. You see here examples of our industry-leading content, thought leadership and the advertising campaigns that we've invested into reach the goal of our brand narrative.

Creating an emotional connection with wealth and health is key to our strategy going forward. You will hear more about our brand initiatives in the breakout meetings with Dave Paulsen, our Chief Distribution Officer and Frank Sottosanti, our Chief Marketing Officer.

We are leveraging our distinctive wealth and health brand narrative to propel Transamerica's already solid competitive position. In the workplace, bringing together our resources under ONE Transamerica has facilitated an integrated strategy. In 2017, we appointed Scott Ramey, as head of our Workplace Solutions, with the mandate of leveraging positions to optimize competitive advantages. We are the only workplace provider to hold top 10 positions across this range of employer-facing businesses.

We are similarly well positioned in individual solutions with top 10 positions across key products that meet customer needs. You'll hear more about our plans to optimize our competitive positions in both workplace and individual during the breakout meetings with Joe Boone, Head of Sales; Phil Eckman, Head of Customer Experience and Advice; as well as Scott Ramey, Head of Workplace.

We have brought initiatives that accelerate growth and provide you a range of KPIs to track our progress going forward. Our growth initiatives encompass the workplace, advice, guidance and experience.

In the workplace, our strategy is to integrate offerings, maximize revenue, grow assets and improve overall retention. Levers include driving penetration of managed advice within both in-forced DC and including managed advice in all new planned proposals.

Our advice, guidance. And experience initiatives revolves around strengthening customer relationships. We currently have 3.8 million of our more than 13 million customers receiving some sort of guidance or advice. And we view advice as a key to strengthening and broadening our customer relationships.

Over the past five years, our advice center has posted a 35% compounded annual growth rate in IRA assets through rollovers and aggregating external accounts. In the individual market, our growth initiatives revolve around improving our already strong competitive position. We intend to accelerate our variable annuity sales via product enhancements and new launches. And have already posted market share gains following product enhancements introduced in February and July.

To propel individual sales, we will launch an innovative new indexed universal life rider in the WFG and brokerage channels. In addition, the reprice of our term life was released last month to improve our overall competitiveness.

In sum, our starting position is solid. And our initiatives are broad to seize the opportunity to accelerate growth.

Finally and to wrap up, we are at an inflection point of accelerating growth. We have made bold, decisive decisions to meet the challenges of the market. Modernization and simplification initiatives are now underway. And top 10 positions in core products allow credible positions upon which to enhance and grow our already strong position.

I would now like to turn it over to Transamerica's CFO, Michiel van Katwijk to discuss how our strong capital position supports both growth and remittances to the group. And positions us to generate sustainable shareholder value. Thank you.

C. Michiel van Katwijk {BIO 1943010 <GO>}

Thank you, Mark. Good morning. My presentation focuses on the capital side of today's story. You will see that our strong capital position provides a solid base to invest into growth of our business. And at the same time, this base generates a sustainable level of remittances to the group. Then moving to a key industry topic, long-term care. I will address how we are actively managing our long-term care book and shifting focus in recent years on new sales that mitigate risk to the company while providing value to our customers.

Obviously, capital and long-term care are only 2 pieces of the financial story. We've made a lot of progress over the past five years on improving profitability, consistently growing our return on capital from 6.5% in 2015 to our target level of 9% in '18, a level which we achieved in the Second Quarter of this year. We also continue to focus on profitability of our new business to ensure we sustain the much improved levels of profitability going forward. This approach enables us to support the growth of the business, while continuing to pay significant remittances to the holding.

Our track record speaks volumes, $13 billion since 2010. Over those years, we improved the quality of our capital generation, generating proportionally less capital by releasing required surplus and a larger proportion from consistent in-force performance. At the same time, the U.S. insurance industry is going through a number of changes to the capital regime. I'm pleased to be able to show how we have successfully navigated through this transformation and expect to improve the strength of our capital position relative to the industry.

Mark took you through our 5-part plan and the management actions we have been taking to improve profitability over our back-book. One such an example is the active management of our long-term care book, which over the past two years has performed in line with expectations. I will take you through some more detail on how we manage this block. And we have provided additional disclosures today to better analyze the sensitivities of this business to its assumptions. Nik Godon, our Chief Actuary. And I will be happy to discuss this in more detail in our breakout meetings later today.

Here on Slide 3, we capture how we fundamentally think about our capital management. Our approach is rooted in a strong capital position, which enables us to support growth of our business, while at the same time paying substantial remittances to the group, maintaining a well-diversified product portfolio supports the predictability of capital generation by our business, together with a well-managed risk profile. Management actions such as simplification of our legal structure help optimize the business.

Earlier this year, we completed the merger of our variable annuity captive into our flagship company, Transamerica Life Insurance company, realizing a capital benefit of approximately $1 billion. Today, we announced our intent to merge Transamerica Advisors Life Insurance company and Transamerica Life Insurance company next year. This is expected to generate another $200 million in capital, thanks to increased diversification benefits.

Here on Slide four you can see that we have consistently been operating at or above the top end of our range of 350% to 450% since 2010. Our RBC ratio has averaged around 465% since the crisis. And it is a conscious decision to keep our ratio at or slightly above the target range, given where we are in the economic cycle with toppish equity markets and a record period of low impairments and regulatory developments, which I will discuss on the next slide.

This slide lays out the significant regulatory changes affecting capital requirements. Let me take you through them one by one. First, we welcome the new framework for variable annuities, as we supported regulators in developing these new rules. The better alignment of valuation of assets and liabilities will significantly reduce hedging volatility and has eliminated the need for a variable annuity captive. We intend to early adopt the framework in 2019. And expect no material impact on our capital position.

Secondly, tax reform will reduce the tax offsets reflected in required capital. With the lower tax rate, the government will share less in our losses. This will increase the required capital we need to hold and is expected to have a negative impact on our RBC ratio of around 60percentage points by yearend 2018. This impact will, however, be essentially offset by management action.

Lastly, the adjustment to RBC asset charges is expected to lead to a manageable impact of our consolidated RBC ratio of an estimated 20percentage points to 25percentage point. At the earliest, this change is currently foreseen for 2020.

Then obviously, there are developments that might or might not go somewhere. One piece of potential regulatory change that we cannot quantify is the outcome of the study by the Society of Actuaries into morbidity improvement, performed at the request of the NAIC.

The NAIC acknowledged in the fall meeting that changes in assumptions are dependent on many factors, including the starting assumption. But as we said at our first half results, even if we were to remove morbidity improvement from our long-term care reserves, our capitalization will still be at the high-end of the range we manage to.

On the next slide I will address the impact from regulatory change on our capital position that we expect in the second half of this year and the management action we have taken to mitigate this impact. In September, we announced the elimination of our variable annuity captive, which is part of our ongoing process to simplify the legal structure of our business. This captive was originally set up to manage the volatility of our RBC ratio, as there is misalignment between the valuation of our variable annuity reserves and hedges under the existing capital framework.

These shortcomings are addressed by the new variable annuity framework. And as a result of these improvements, there is no longer a need for a variable annuity captive. We therefore decided to merge our captive with Transamerica Life Insurance company. This is expected to lead to a one-time benefit of 50percentage points on our overall RBC ratio, or in other words, approximately $1 billion in capital generation. The merger will have no material impact on recurring capital generation.

The one-time capital benefit is driven by the release of reserves and lower required capital from diversification benefits. The reserve release is a result of combining the cash flows from the more seasoned block of the captive with Transamerica Life Insurance Company's younger block of business. This benefit further strengthens our capital position and essentially offsets the expected negative impact from tax reform of 60percentage points.

On Slide 7, you can see that our capital position provides us with a strong foundation to remit capital to the group. Since 2010, Transamerica has (streamed) $13 billion to the group: $10 billion of annual remittances and $3 billion of remittances paid from the disposal of non-core businesses, such as the BOLI/COLI runoff business in 2017.

This year we anticipate another $150 million in additional dividends from the divestment of our remaining life reinsurance portfolio to SCOR.

Despite significant divestments over the years, we've been able to maintain stable normalized capital generation of approximately $1 billion, supporting annual dividends to the group of $900 million. Earlier this year, we raised our capital generation guidance to

$1.1 billion. This additional $100 million is the reflection of the lower tax rate, thanks to U.S. tax reform, which was enacted at the end of last year. We expect capital generation to increase towards $1.2 billion in 2019, allowing us to both invest in our growth strategy and gradually increase remittances to the group.

Looking at our capital generation profile for next year and thereafter, we expect gradually growing capital generation over the medium term. We have increased the quality of capital generation as it has become much less dependent on the release of required capital. To fuel our growth strategy, which Mark laid out in his presentation, we expect a higher new business strain from higher sales volumes. Using normalized capital market returns, this will, however, be more than offset by increasing capital generation from higher fee revenue, the anticipated growth of our indexed universal life block and additional revenue from our integrated workplace strategy. All in all, this is expected to lead to gradually growing capital generation and remittances in the coming years.

On Slide 9, you can see how we protect our dividend paying capacity through our enterprise risk management and related hedge programs. Our enterprise equity hedge program protects the RBC ratio in a down equity market scenario at multiple points. The aim is to limit the impact to the consolidated RBC ratio at 25percentage points in case equity markets drop by 25% relative to our base economic scenario. Without this program, such a scenario would lead to a drop of approximately 50%. Tax reform, in combination with the implementation of the variable annuity reform, have led to somewhat higher sensitivities.

To anticipate this, we have recalibrated our hedge program without an impact to the running cost of that program. The cost associated with the hedge program will therefore be consistent with the current run rate of about $45 million a quarter. Eoin Elliffe our head of ALM & Hedging will discuss our hedging strategy in more detail in the breakout session.

I've now come to the last part of my presentation, in which I will address our long-term care book. In a minute, I will discuss in more detail the 3 levers we use to manage the profitability of the book. First, rate increases, which Transamerica started to request approval for in 2002. So over 15 years ago. The current round of rate increases started in 2016, which increases the present value of future profits by $1.1 billion and is more than 75% done. We currently are at $900 million now. And it represents an average increase of premiums on our total book of 45%.

Secondly, investment income and hedging. Since 2002, we have a forward starting swap program in place to protect us from the reinvestment risk associated with this long-dated business. This program is supporting a portfolio yield of over 7% for the next 20 years.

And lastly, reinsurance. Early on, we have reinsured -- we have reinsurance -- from early on, we have reinsurance coverage on 20% of the portfolio, which has some of the richest benefits of our block. On a separate note, long-term care was one of the first businesses that went through model conversion, putting it on the life and health destination actuarial valuation platform already in 2014.

The enhanced modeling capabilities that we have developed, enable us to examine the business at a more granular level. And as a result, track the experience on the business closely.

The manageable sensitivities of the book, which Nik will address in more detail in the breakout session, reflect these management actions and the characteristics of the book. We track the experience on our long-term care book on a monthly basis and review the long-term care assumptions annually.

Over the last two years, our long-term care experienced under IFRS has tracked well against management's best estimate. And we have not made material changes to our actuarial assumptions for this business. We view the IFRS results as the leading indicator of the health of our long-term care book, as they reflect the best estimate or most up-to-date assumptions based on our emerging experience. The graph shows that our actual to expected claims ratio on IFRS has been tracking close to 100% over the last two years. And the experience study results show that the individual morbidity components also show a good fit over the 10-year study period. Because of this good fit, no additional reserve is indicated on either in IFRS basis or statutory basis. Overall, we will continue to monitor results, review our assumptions annually and actively manage our long-term care business to ensure we have adequate reserves in place.

The long-term care management actions that I mentioned earlier, have a combined positive impact on our IFRS reserves of $4.6 billion. The 2016 rate increase program represents a net present value of $1.1 billion. So far we have realized around $900 million worth of premium increases. The remaining pieces are in various stages of approval. The portfolio yields in excess of 7%, represents a reduction in IFRS reserves of $2.3 billion compared with those under statutory accounting, where the average discount rate is around 4%. The reinsurance coverage we have on our portfolio, reduces the net IFRS reserves we have to hold by another $1.2 billion. This business has a higher proportion of the richer benefit business, the 5% inflation option. All in all, these in-force measures have generated considerable value for Transamerica.

And as you can see here on Slide 13, long-term care is not only about managing our in-force book. We also have a successful, profitable new business. The new products we provide are derisked products where benefits have been capped. The vast majority of the long-term care type of risk we take on our books today consist of long-term care writers on individual life insurance policies instead of stand-alone policies.

In 2012, about 1/3 of new long-term care business consisted of life insurance riders, while this increased to more than 90% in 2017. The riders on life insurance products provide important benefits to our middle-income customers. One of the riders we offer has the option to use the life insurance coverage to pay for long-term care, instead, if so, desired by the policyholder.

So let me conclude my presentation by reiterating our main messages. Transamerica has improved profitability of its business markedly over the past five years, witnessed by multiple consecutive years of return on capital expansion. Transamerica has a strong capital position with the ratio well above the target range. And we are successfully managing through regulatory changes by supporting the process of change and taking appropriate management action and we'll continue to do so. Our risk management actions and enterprise hedge programs are designed to protect our capital position in adverse markets, resulting in relatively limited sensitivity to a downturn in equity market.

We actively manage our in-force business, including our actively managed long-term care book. And this all results in sustainably growing capital generation allowing us to both invest in growing the business and increase our remittances to the group.

I look forward to continue our conversation in the group meetings. But before we do that, Alex, Mark and I, will be available to take some questions.

Questions And Answers

Q - Heather Takahashi {BIO 17304791 <GO>}

Heather Takahashi, Lord, Abbett. I have 3 questions. Number one, the $100 million to be invested in new business, what's the ROI on that? Then the TCS contract, if they don't -- or if you guys don't meet your objectives, what are the consequences to TCS? Is there something to align their interests? Then third question on LTC. Severity is a (pick). So this is more a request. Could you disclose metrics to allow us to evaluate the conservatism in those (picks)?

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

You want to do a long-term care one?

A - Mark William Mullin {BIO 16344493 <GO>}

Sure. So the -- on all new products, new sales, new product and new sales, we have to meet the pricing standards that we abide by. So that means positive MCVNB, that means -- sorry, go ahead.

Q - Heather Takahashi {BIO 17304791 <GO>}

Sorry. What I actually meant was on the -- sorry, I was actually referring to the runoff, the legacy business. So for disabled life reserves, for long-term care, severity would be a (pick)?

A - Mark William Mullin {BIO 16344493 <GO>}

Yes, sorry. Do you want to start long-term care?

Q - Heather Takahashi {BIO 17304791 <GO>}

Oh, sorry.

A - Mark William Mullin {BIO 16344493 <GO>}

I was taking your questions in order.

Q - Heather Takahashi {BIO 17304791 <GO>}

Oh, sorry. I misunderstood.

A - Mark William Mullin {BIO 16344493 <GO>}

No. It's okay. So I will start with new business growth, new business investment. So we have pricing discipline in place, positive MCVNB, positive IRR and a cash flow payback period of 10 years or less. Those are pricing disciplines we abide by. And that's what we go-to-market with. So I would argue that the best place we can invest shareholder capital is in profitable new business growth, which will lead to underlying earnings growth as well as capital generation growth that Michiel demonstrated. As it relates to your second question on TCS, the terms of the contract, there are key metrics that TCS must abide by in terms of delivery. There are 2 elements to think about when you think about TCS. I would suggest just to keep it high level. We can have far more detail on the breakouts. And I suggest we do. One, they will be working on the one hand at sunsetting and decommissioning all of those 26 legacy admins -- administrative systems that we talked about and converting those over to the bank's platform. The time line to do that is approximately 5.5 to six years. That is how TCS, that is their expertise, their competency, if you will. They're an IT technology leader. And by reducing the footprint, those 26 down to the bank's platform, obviously, there are savings involved for both TCS, our partner as well as that's where our savings come from. Concurrently, we will be, starting Q2 of next year, putting all of our -- as I mentioned, all of our life, annuity and health products on to the bank's destination platform. Again, there are standards that we have in place with TCS, that were negotiated as part of the contract in terms of what we do, what we're required to do and perform and what they must bring to the table. And there are contractual provisions that are clearly spelled out in the contract in terms of both, if you will, carrot and stick. So there are penalties involved if they're not able to meet the execution per the terms of the contract. I'll give you the long-term care one.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Sure. So all of our assumptions that we use for our long-term care book are informed by our own experience, industry experience and publicly available information. And so in the deck for the side meeting, we have provided more detail on a number of our assumptions, including our claims assumptions and the sensitivity that our assumptions have to changes. I'd be happy to discuss that in more detail in the side meeting.

Q - Cor Kluis {BIO 3515446 <GO>}

Cor Kluis, ABN AMRO. Couple of questions. First of all, about new products. (Are you able) to grow a little bit the business going forward? Could you indicate in which product lines you want to grow? And given the higher interest rate environment what is different than in the past? And the second question is about capital generation has gone up from EUR 1.1 billion (sic) ($1.1 billion), EUR 1.2 billion (sic) ($1.2 billion) next year. You also say the cost will go up by EUR 100 million (sic) ($100 million). So basically your profit is growing even faster. Taking that into account, could you give us a little bit of bridge from the current capital generation normalized to the EUR 1.2 billion (sic) $1.2 billion next year is still coming from cost reduction or revenue growth? The last question is about acquisitions. Given the capital position of Aegon, which is quite improved, of course, what are the spots where you would still like to strengthen by doing some -- if prices are attractive, of course -- at-home acquisitions for the U.S. and yes, if you have time, maybe also for some other countries.

A - Mark William Mullin {BIO 16344493 <GO>}

Okay. In terms of -- I'll take the first part. And then we can pass it around here. In terms of where we're looking to grow, I would remind you to take a -- just to set context and give some background for those who may be newer to the company. We went through a very lengthy process in 2016 to look at the full panoply of products that we sell in the market. And we have reduced and eliminated a number of those products that we've deemed as noncore. Some of those were sold, some of those have been run down. What we currently have in the portfolio and what -- and you saw some good snapshots here in terms of our market position and what we're moving forward with. So we've simplified and rationalized the product offering. And the products sort of fit under those 3 pieces. So workplace. What do we sell in the workplace? Retirement plans, DC, DB, total retirement, voluntary benefits. And as I mentioned in my presentation, we are the only company that has a top 10 position in both retirement and voluntary benefits. And we've now gone out to the states. We've gotten approval on 43 of those states to actually put bundled pricing together. So the plan sponsor can pay less if they bundle. This is a common practice in the property and casualty business. We are the first to market with that in the life and retirement space. Quite unique. And we'll be rolling that next year. On the individual side, again, you got a good snapshot of what we're selling there. So that's a number of life products, IUL, life combo products, these are the fastest growing, by the way, life products in the market. So people always talk about life insurance not growing. If you look at life combo sales, Michiel talked about in his presentation, they're actually growing quite rapidly. And we're a leader. IUL, we're a leader. Those are the 2 fastest-growing products in life. But of course, we have term, whole life and another of those core products. In that space as well, we have variable annuity. That has been a key driver of both cash flow as well as earnings for us. We're well positioned there, again, in the top 10. Then advice and guidance, just to give you sort of high level. We've got Managed Advice both there and at the workplace. Managed Advice is a -- I see the quizzical look on your face. Managed Advice is an algorithm-based engine that helps with asset allocation, fund selection at the individual level, either at the workplace or through our advice center that Phil Eckman can talk to you about in more detail. IRAs, mutual funds. So we -- if you think about it at high level, we help people save, invest, protect and retire. And those products would fall under those 4 things. And you'll hear a lot about this in your breakout with Dave Paulsen and his team, who runs sales and distribution, is where we play and you saw the top 10 positions across those key products. Sorry.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

No. In addition to that, I think one of the fast-growing products in the coming years will be fixed annuities for us. We've added distribution recently. So we would expect to see more sales in that product as well. So Cor, just to be clear. I was talking about $1.2 billion of capital generation, right, for the U.S. And it's really driven by the growing cash flows from the in-force, from the business that was put onto the books over the last couple of years. So the cash flow from the in-force is growing. And that allows us to invest more in new business and actually have more normalized cash flow that we can use to remit capital to the group.

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

I'll say a few words on which is your last question acquisitions. I think we'd be very clear that our focus is on organic growth. We want to leverage what we have, want to grow the business we have. Our best investment is to allocate capital in our own business. We seek highest returns. But always lowest risk because we know these businesses well. But we also looked at ways of leveraging our existing capabilities. U.K. is a good example, as you know, Cofunds and BlackRock's DC. The U.S. is a good example with Mercer where we have a platform and we effectively don't buy a company or a business; we acquire customers in one go. I said a number of times, Cofunds was effective in acquisition of 900,000 customers we've put on our platform. And we paid GBP 150 per customer, which is a cheaper way than going out one after other for 900,000 customers. So that is the concept. And I'm just repeating what we said number of times because I think there was a question you asked, in the Netherlands, we said we'll look at anything that is of an exception in the Netherlands. We also passed as you have seen this week. We clearly passed on Loyalis. If it makes sense for us, we'll have a good look. It has to be really meeting our financial hurdles in a very clear way.

Q - David Kenneth Motemaden {BIO 18818634 <GO>}

David Motemaden from Evercore ISI. Just a question on the fixed annuity book in the U.S. There have been a number of announcements from the U.S. peers at the market for sales of these types of businesses or reinsurance transactions is pretty vibrant. So just wondering what your thoughts are on that? And if you'd consider reinsuring or divesting that block? Second, just on a long-term care reserves. Just wondering the trajectory of growth in those as the block is still aging? I think they grew roughly 5% last year. When do you expect these reserves to peak? And also just thinking about the capital required to back those when -- how much will the capital required would increase over that time frame as well? And lastly, just on -- a question on the severity in terms of on-claim lives. We've seen in the industry that claims durations have been extending. And just wondering if you guys include that claims durations will extend in your active life reserve?

A - Mark William Mullin {BIO 16344493 <GO>}

I think those are all yours.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Nice. Okay. On fixed annuities, yes, we've noticed the same thing going on in the market. We already have quite a bit of reinsurance on our existing block of fixed annuities. So we will continue to evaluate options that we have there. So we won't hold back if we see a good deal. We will look at reinsurance part of the business. But we're also very happy running it off. It's been performing really well in line with our expectations. So we'll look at market opportunities opportunistically in that ramp. Long-term care reserves, yes, you're absolutely right. They will continue to grow over the next years. I think the peak of reserves will be reached around 2030. So that's another 12 years of reserve growth that we have in front of us. I have to get back to you on what capital growth over that period will be. I don't have a number for you from the top of my head. Then we have seen the same trend in claims duration. We set our reserves based on our experience. And so we have been reflecting that in the way we set -- we are setting our reserves.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Benoit Petrarque from Kepler Cheuvreux. Three questions from my side. First one will be on the special dividend. You will pay $150 million in H2. Your RBC ratio is at a good level also on the pro forma basis. And you have the merger of Transamerica Advisors next year. What is your view on further special dividends from the U.S. next year? Then on the dividends guidance which is a rising dividend for next year from the U.S., how the market could impact this guidance? Just wondering about to which level in terms of S&P or credit spreads, are you happy to keep this guidance? And which level you might actually become a bit more cautious on that one? Then the last one will be on the fixed annuity book. How much capital generation is included in your $1.2 billion from this book of business?

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

Again, for you.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

I will answer it again. Sorry. Yes. So dividends for 2019, I would expect over the coming years to slowly grow based on our increasing capital generation, the normal dividend. We haven't made any decisions on additional dividends. I would expect like we've done in the past that if we free up capital by selling businesses or anything like that, that we would upstream that capital like we have done in the past. On the other hand, there isn't much left to sell. So we really have worked through the substance of all of what we call our noncore businesses and so there is very little left there. So I would -- if I were you and building a model, I would just include $900 million as a regular dividend for next year. Fixed annuities...

A - Mark William Mullin {BIO 16344493 <GO>}

Capital gen from fixed annuities.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Capital generation from fixed annuities. I think it will -- currently will be somewhere between $100 million to $150 million annually. It is broadly consistent with an after-tax number for the earnings. So that's sort of an indication of where that is as part of the capital generation.

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

And the sensitivity.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Sorry?

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

The sensitivity, there was a question about.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Yes. So I -- and your question was regarding capital generation, right? Or was it...

Q - Benoit Petrarque {BIO 15997668 <GO>}

It was also on kind of your guidance of rising dividends from next year to the kind of $900 million. I was just thinking about in which market you keep it and which market you will...

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Yes. So we make assumptions -- as we set our plans for dividends, we make assumption or expectations for capital generation. We use assumptions also for impairments, for instance. And so even though we effectively haven't seen any impairments over the past six years, we -- in every year, we will include an assumption for impairments, right. So for next year, we wouldn't go in our assumption up all the way to what the long-term average is, which is somewhere around 25 basis points. But not that high. But we would make an assumption about impairment. So I'm pretty comfortable with that guidance for the coming year.

Q - Joel Gross {BIO 1501254 <GO>}

Joel Gross from ICMA Retirement Corporation. I would appreciate if you gentlemen could give a quick overview of Aegon's other American operations outside of the United States, particularly in Mexico and other places?

A - Mark William Mullin {BIO 16344493 <GO>}

Sure. We have a greenfield startup operation in asset management in Mexico, it's called Akaan Transamerica. You won't see it showing up in a material way in the financial statements. As I said, it's a new venture and very little capital invested. You're talking about $25 million, just to give you a ballpark. We have a very successful joint venture in Brazil. And we've been involved with our partners in Brazil now for approximately 10 years. It's one of the fastest-growing life and asset management companies in Brazil, run by great leadership team. And we can talk more about it in the breakout. It contributes a few million a quarter to our underlying earnings. So again, when you put it on the scale of the U.S. business, it's relatively small. Having said that, when you look at growth rate and the capital gen and the performance of the business to top line growth, it is going exceptionally well. But again, in terms of its overall impact on the U.S. or group, it's still relatively small.

Q - Hadley Cohen {BIO 18331131 <GO>}

Hadley Cohen, Deutsche Bank. Three very quick questions, please. And can you -- your RBC was very, very strong in the first half, $490 million. Is it possible to, given the volatility that we've had in recent months, to get a sense of where you think it is today? The second question is, if I go back to 2008, 2009, I think your cumulative credit defaults over that period were just over 200 bps. And I think you gave a sensitivity to 200 bp defaults. Your portfolio has, obviously, changed quite a lot since then. So is it possible to sort of quantify what your default experience would be on the current portfolio based on the 2008, 2009 experience? Then final question, just very quickly on the Mercer transaction. I think in the first half of the year, you still were seeing outflows in that business. I mean, how have those flows compared to your expectations? At what point do you expect them to sort of trough? And when can we expect them to reverse and stop growing again?

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

So we had $490 million of capital generation in the first half. I would expect for the year to be around the levels that we have in the last year. So around $1.1 billion for the year. And I think that's a fair assumption. On our credit portfolio. So the sensitivity we give you is based on a 97.5percentile event, which is roughly consistent with 200 basis points. You point out that our portfolio has changed, right. Predominantly, the size has changed, right. We were -- in the crisis, it was probably a portfolio of around $130 billion, just before the financial crisis; we're down to less than $80 billion at this point. And so that is the main difference. It remains a very well diversified portfolio. I don't think that there are specific industries that concern us at this point as industries. There are a number of names that we're tracking. But they're spread out through different parts. So the sensitivity you have for the 200 basis points is a good one. You can use that for 97.5percentile credit event, which is a pretty severe event.

A - Mark William Mullin {BIO 16344493 <GO>}

And the Mercer?

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Mercer? Do you want to...

A - Mark William Mullin {BIO 16344493 <GO>}

So -- yes.

Q - Hadley Cohen {BIO 18331131 <GO>}

Yes, sorry. Can I just quickly come back on the RBC ratios? I was more interested in the impact from market movements since the end of the first half...

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

Limited.

Q - Hadley Cohen {BIO 18331131 <GO>}

Rather than the actual capital generation?

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Market -- in the Third Quarter, we have positive markets. So we would have had more capital generation than would normally have.

Q - Hadley Cohen {BIO 18331131 <GO>}

Okay. But I think markets are slightly lower now.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Right. So we've given back some of that. But I think all-in-all, capital generation, whether it's normalized or including market impact, I think where we are today, I think some of the positives that we had in the First Quarter will be given back here in October and November. But I don't think there is anything major going on.

A - Mark William Mullin {BIO 16344493 <GO>}

Okay. With respect to Mercer, remind you what we purchased, it was a strategic acquisition first and foremost. It allowed us, as Transamerica, to get into the jumbo space. Our pension business has been extremely successful over decades in the SME market, small, medium and large. But we did not have a presence in the jumbo market. When we did the transaction, it came with a significant amount of assets, $50 billion. And remind you, the purchase price was $75 million. There was an upside available an option, depending continued upon retention rates. Because when you're doing an institutional transaction where you're dealing with planned sponsors who are, in fact, fiduciaries for their employees, you know you are going to see some kind of shock lapse. So we did price the shock lapse in, directly to your question I would say the elapsation we experienced was higher than our pricing assumption on the shock lapse spaces. Having said that, we're now actually, if I look at the clients we retained, I think we're going to getting into a normalized kind of run rate in terms of net deposits starting in 2019. I think most of the challenges are behind with respect to that block of business. And of course, we've got healthy cash flows, gross deposits as well as net deposits on our core legacy books. And the sales pipeline, if I looked into the sales pipeline, within that pipeline, there are a number of jumbo opportunities, we've got to close them. But we would not be in that market have we not that transaction. So I hope that answers your question.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just a first sort of big picture sort of question. There's been a lot of portfolio trimming over time. And so you've done a good job there. But is that the end of the portfolio trimming from Aegon? Or there still seems to be a quite a tail of business? That's the first question. Second question is just regarding the consolidated RBC ratio and the sensitivity to equity markets. I guess, from a legal entity perspective, you need to protect each legal entity. So how sensitive is the VA book to downturns in market? And how much liquidity are you keeping in the U.S. holding company to meet all the legal entity requirements? And the third question is just in regards to your hedging cost. Those hedging costs, are you using a realized vol that you use in your reserves of around 18, I think, or using implied vol? And finally just if you can give sensitivity to basis risk on hedging as well on the capital base?

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

So Johnny, let me start. Thank you for saying that we see -- we've been doing a lot of portfolio rationalization. We'd be looking at our businesses within countries. So good examples in the U.K., Netherlands, U.S., which you're well aware of. We'll also be looking at countries that we have been exiting. So there is quite a list of them as you know. Just recently, we announced Slovakia. We continue to look at all our business on an ongoing basis. There's, I think, one country I've been a bit more specific about and that's Japan. We said we will be exploring the various options we have. We are continuing to do so. But we will continue to look at those business that fit our strategy, those business where we are not distracted and those that will also being an amount of scale and size. And that's really very important. So you will continue to see portfolio rationalization.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

So when it comes to variable annuity hedging, we basically run -- or equity hedging, we basically run a number of programs that are special to books of business like for variable annuity mainly withdrawal benefit book that is an open book today, our IUL business and a number of other of these kind of plans. Those are dynamically managed programs basically on a fair value basis. Then for the remaining equity risk, which includes our (DBIV) book for the early 2000 and late '90s, we have an enterprise hedge program. And so the cost that I was referring to of $45 million a quarter is related to that specific program. In our fair value reserves, we use in valuation of volatility, we use implied volatility. And so you will always see a bit of a result from your realized volatility being different than your implied volatility. So there are some of that. Then obviously -- actually, we have done a lot of work over the past years in Owens Group. We have done a lot of work to limit the front mapping risk and get more information on the underlying funds and get it faster. So that we can more precisely hedge. So there is always going to be some risk, obviously. But we've been limiting that over the last couple of years, actually quite substantially.

Q - Marc Cohen {BIO 1516951 <GO>}

Marc Cohen from Guggenheim Partners. Just a few questions. In regards to the life annuity administration with TCS, can you maybe give us some color in terms of the feedback loop that occurs with TCS with your internal actuaries in terms of mortality, morbidity trends that would occur that you would price appropriately and effectively to be on top of the behavioral or even financial loss assumptions that you originally placed in? Second question is, appreciate the color on the RBC ramifications to the variable annuities. But would like to get some ramifications on what the effect is on the conditional tail expectation to a 98% which will be incorporated by the NAIC? Thirdly, on the long-term care book, can you provide us what the buffer is between your IFRS and your stat reserves? Then finally, given the volatility that's occurred in November and then earlier this week, could you give us some color in terms of what your hedge effectiveness was?

A - Mark William Mullin {BIO 16344493 <GO>}

In 4 minutes or less.

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Sure. So your first question, TCS will be administering policies only, right. So we will get all of the information from all of the policies. And we will run our own valuation and our own pricing. All of those things will remain with Transamerica. So we'll get just the basic policy data that we need from them. There is no real actuarial assumptions that we need to get from them or anything like that. Okay. On hedge effectiveness, I think that -- but (Owen) can correct me if I'm wrong. But I think over longer periods of time, our hedge effectiveness has been anywhere between 96% and 99%. I don't think that the last couple of months has been any different and he is nodding. So I'm good there. I'm sorry...

Q - Marc Cohen {BIO 1516951 <GO>}

90, 98...

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

Oh, yes. So the cut over to the new variable annuity framework, we do not expect any impact on our reserving or on our capital. So effectively, we are at that level. Then?

Q - Marc Cohen {BIO 1516951 <GO>}

The buffer between IFRS reserves on the long-term care?

A - C. Michiel van Katwijk {BIO 1943010 <GO>}

On long-term care. So if you look at our IFRS reserve, excluding the shadow, our reserves. So the reserve that is available to pay claims, that at the end of the year was $5.4 billion. The step reserves were $5.8 billion. So I think -- so it's about $0.5 billion over -- set reserves are about $0.5 billion higher than IFRS reserves.

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

Robin van den Broek, Mediobanca. I just have one question left. In your slide deck, you also gave some updates on the model, the margin on products. But I think if you would use those on H1, I think, the impact in underlying earnings before tax is roughly neutral. But yes, those assumptions do include the cost cuttings you have been doing. So probably there is some margin pressure underlying those businesses? Was wondering if you can talk a little general trends there and how important will cost cuts be going forward? Or are you expecting to basically show growth purely on the back of the net inflows going forward?

A - Mark William Mullin {BIO 16344493 <GO>}

I would posit that margin compression is -- has been real, exists today and will exist in the future, it's competitive market. We're in the United States. It's a hypercompetitive market. So that is why a deal like TCS is so monumental in terms of its transformational impact for us. As I said in my opening remarks here, there is no company in our sector that at the end of -- remember what this looks like, at the end of five years in our entire in-force of life annuity and health will be on a modern digital end-to-end platform. That means we will have a lower cost base than what generally you will see in the market. In our case, we're sunsetting with -- (half) of our partners' 26 admin platforms. I would tell you that what will come with that is also process improvements on the side of our business because legacy admin platforms were built in a very different time. They were not designed with today's technology, they are not designed with a digital-first direction, just didn't exist. Your iPhone didn't exist when these platforms were put in place. So we see process improvement. We see enhancement. I'll give you one example that this will enable and I talked about it briefly, automated underwriting. We spend a lot of money as do our competitors on medical, let's say, fluids. Once you have your data in place in your data analytics and you can drive a couple things. One, you can drive cost down of issuing a policy. Two, you can improve the experience. Three, you can improve the replacement ratio. Four, you open up a new avenue of distribution. So for example, why don't financial advises sell life insurance today? Because the process looks like it did in 1970, it's horrible. We think this is a wonderful opportunity for us to not only drive costs down and efficiency through simplification and modernization on brand-new admin platforms that drive into the data analytics layer, that drive into the presentation layer. So I see sales benefits, I see experience benefits, I see a competitive advantage through speed because no one will be able to match my estimation, no one will be able to match the speed we'll be able to put products on because you're not having to deal with this legacy heritage complicated involvement and that's how you'll be able to deal with margin compression and changes in market, right. So such is response to competitors, competitor A does one thing, competitor B does another, it's also how do you evolve and change your product set as markets change, number of folks in here had questions around volatility and its impact. I would argue in today's world, you've got to be faster than the competition. So yes, it's competitive, yes, TCS -- our partnership with TCS enables us to be a low -- and/or low -- lower or low-cost provider. But importantly, it positions us for sustainable profitable growth. All of that is tied up in that strategic joint venture.

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

Thank you very much, gentlemen, for taking the Q&A. Hopefully, behind me the breakout rooms will show up. The -- there are 4 breakout rooms. The breakout starts in about 0.5 hour, bit earlier than that. There is one breakout room here on the 7th floor. But to stick to your wealth and health theme, we also have you walking around the building a bit. So there are 3 rooms one floor down. So please keep an eye on the schedule on where you have to be in about 5 minutes in between the meetings to change rooms. Thank you.