AGN.AS - Q3 2012 Aegon NV Earnings Conference Call

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Ladies and gentlemen, thank you for holding. Welcome to the Aegon third-quarter 2012 results conference call for analysts and investors. (Operator Instructions). I will now hand the conference over to Mr. Jan Nooitgedagt. Please go ahead, sir.

Jan Nooitgedagt - Aegon NV - CFO

Thank you. Good morning. Thank you for joining us for this discussion of Aegon's third-quarter 2012 results. Joining me are Darryl Button, Head of our Corporate Financial Center, and Bill van den Berg, Head of Investor Relations. Before turning to the results, let me remind you to take a moment to review our disclaimer on forward-looking statements which is at the end of this presentation. As always, we look forward to your questions after the presentation.

Despite the persistent challenges of the general economic environment that you all are aware of, we are pleased to present a strong set of results for the third quarter. The growth of our business, combined with our consistent focus on reducing costs across our organization, as well as a stronger US dollar, led to a 31% increase in earnings. The third quarter is typically the quarter that we review our assumptions. We did not change our long-term investment assumptions, however, updated other assumptions led to a net negative effect of EUR22m.

Total sales continued to be strong and totaled EUR1.6b, a clear indication of solid business growth and our healthy franchise. As a result of our focus on selling profitable new business, our value of new business increased to EUR173m. And finally, Aegon's capital position and cash flows remain strong. Naturally we are pleased that our capital base ratio of 75% is in line with our targeted level.

Here on slide three we provide a quick overview of our progress toward our 2015 financial targets. As you can see, our fee-based earnings now represent 33% of our underlying earnings, in line with our target of 30% to 35%. This is the result of our successful shift from spreads to fee-based business. At the same time, return on equity increased to 7.7%. Excluding capital allocated to run-off businesses, the return on equity amounted to 8.6%. I will address underlying earnings and cash flows in more detail a little later in the presentation.

Turning now to underlying earnings, which increased 31%, as I indicated, the growth of our business, the continued cost reductions we have implemented and a more favorable currency and equity market movements were the main drivers of the increase. Our US Pensions and Variable Annuity businesses both benefited from strong
net inflows of, in total, $1.2b. And at the same time our indexed universal life product has been well received in the brokers' channel, evidenced by the increase in US new life sales of 9%. In addition, Aegon Asset Management continues to experience net inflows which contributes to earnings growth.

Earnings were also higher as a result of the cost reduction initiatives across the Company. This was partly offset by the exclusion of our joint venture with CAM in Spain, which contributed EUR5m in the comparable quarter last year. In this quarter our earnings benefited $35m from the changes to our post-retirement benefit plan in the US. In addition we update our assumptions in the US this quarter, which led to a net negative impact of EUR22m or $31m, something I will detail on the next slide.

The third quarter is typically the quarter in which assumptions are reviewed by management. The total net impact of the assumption update on underlying earnings was limited to a negative $31m. The main impact came from the update of our policyholder behavior assumptions in our Variable Annuities book which amounted to a negative $55m. We maintained however our US equity market return and long-term interest rate assumptions.

On slide six, we maintain our long-term reinvestment yield assumption, which is the aggregate of our projected risk-free rate and credit spread. This means that we assume that the risk-free rate will grade from current levels to 4.75% in five years, in 2017. The credit spread is expected to grade from current levels of approximately 180 basis points in two years to 110 basis points. Maintaining these assumptions means that we expect the reinvestment yield will grade from current levels to 5.85%, and this represents a risk-free rate of 4.75% and a credit spread of 110 basis points. And we assume this 5.85% to be reached in 2017 instead of 2016, which was last year's assumption.

By shifting the curve one year out we effective lower our reinvestment yield assumption, as the picture on the slide clearly shows. The impact of lower yields on our earnings is manageable. As we have indicated before, underlying earnings in the US are impacted by around $10m per quarter this year and approximately $20m per quarter for 2013. And to mitigate these effects as much as possible, we will continue to focus on cost efficiencies, redesign, re-price or withdraw products if necessary, introduce new products that are less interest rate sensitive and continue to focus on writing profitable business on a market-consistent basis.

Here on slide seven you can see that in the third quarter net income was positively impacted by gains on investments, and the further downward trend of impairments, which were only 2 basis points this quarter. Impairments benefited from higher recoveries, something I will return to in a moment.

Reducing expenses, as you are aware, is a consistent focus, and we have made good progress in that regard throughout 2012. As you can see on slide eight, in the first nine months of the year we achieved EUR140m in cost reductions. These cost reductions and the non-recurring of the restructuring charges were the main driver of a 7% lower year-on-year cost base. I want to make clear that reducing cost and pursuing operational efficiencies are an integral part of how we manage our day-to-day business. At the same time, we are making the necessary investments to drive business growth, as represented by our new platforms in the UK and the Netherlands.

Let me now here on slide nine give you some more detail on the sales we generated during the third quarter. And let me start by saying that we were pleased by the strong sales level of EUR1.6b. Gross deposits were strong, at EUR9.4b, though lower than last year when we experienced strong inflows of stable value solutions. As you know, it's our strategy to keep our stable value book of business at its current size of approximately $60b. And gross deposit this quarter reflect Aegon Asset Management deposits of EUR2.5b as well as solid inflows in our Pension and Variable Annuity businesses which I will return to in a minute.

The new life sales were generally stable, benefiting from particularly strong sales in the US, however offset partially by lower sales in the Netherlands and the exclusion of our CAM venture in Spain, as I noted earlier. Accident and health sales increased by 24%, as a result of our leadership position in providing travel insurance in the US and the fact that we attracted a new distribution partner in this attractive market in the third quarter of last year.

We continue to achieve strong sales momentum in our US Life and Protection business, as evidenced by the 9% increase in life sales and an 11% increase in sales of accident and health products compared to last year. As I just mentioned, accident and health sales benefited primarily from a new distribution partner added in the third quarter last year. Sequentially sales were down slightly due to seasonality.

Most of our life product sales, such as indexed universal life as well as whole and term life, were profitable on a fully market-consistent basis this quarter. These products fared very well in a low interest rate environment. I want to mention that we discontinued our universal life joint survivorship product in the third quarter which did not perform well in the current environment. And this is an example of our strict pricing discipline and focus on maintaining our margins.

Moving now to the performance of our US Deposit businesses, and in particular Pensions and Variable Annuities. Here on slide 11 you can see that we have increased balances in both lines of business, while at the same time improving our profitability. This quarter the margins of our Pension business totaled 26 basis points, which is an increase compared with the 24 basis points we realized in the previous quarter. Year to date we realized a margin of 25 basis points, in line with our targeted margin as we were able to continuously reduce our expense rate.
Again, our Variable Annuity business performed very well. Adjusted for assumption updates, we realized a margin of 88 basis points year to date, above our targeted margin of 80 basis points. And including assumption updates, the margin was 72 basis points for the first nine months of the year. During the quarter we also re-priced VA products in order to maintain our new business margins in the persistently low interest rate environment.

Aegon Asset Management continues to benefit from increased insourcing of assets, strong third party inflows and market movements. This was offset by general account outflows due to businesses being deemphasized or in run-off. New inflows from third parties amounted to EUR3b year to date as the UK attracted solid growth in the retail sector and the Netherlands and the US had a number of new institutional mandate wins.

As we announced with our second-quarter results, we have sold our minority stake in Prisma for a total consideration of EUR100m in Q4.

Turning now to slide 13 for a quick review of market-consistent value of new business. Total market-consistent value of new business for the quarter was positively impacted by the actions we have been taking to adjust our product pricing to meet our strict risk return requirements. We will continue to focus on writing profitable new business, a key element of our strategy.

On slide 14, impairments during the quarter declined further from the low levels we have seen in previous quarters. And this decline was mainly due to recoveries of EUR26m related to mortgage-backed securities, reflecting the improvement in projected cash flows on the underlying mortgages.

Turning now to Aegon's capital position on slide 15, at the end of the third quarter our Group IGD ratio increased to 222% from the level of 216% at the end of previous quarter. And the RBC ratio in the US increased to 480% as a result of strong net income and capital preservation measures of $575m, which were partly offset by dividend upstream to the holding. Once again, I would like to emphasize a point we consistently make. In the current uncertain environment we believe that maintaining a strong capital position is not only prudent, but essential. At the end of the third quarter excess capital at the holding totaled EUR1.6b, well above the minimum of EUR750m we aim to hold.

You will remember that one of our key financial targets is to increase operational free cash flows by 30% by 2015 from the normalized 2010 level of EUR1b to EUR1.2b. During the third quarter, operational free cash flows, excluding the impact of markets, totaled EUR448m, which puts us on track to achieve our targeted level of operational free cash flows.

And on slide 17 we provide you Aegon's capital base ratio, which amounted to 75% at the end of the quarter. As you are aware, our target is to achieve a capital base ratio of at least 75% at the end of 2012, and clearly we are on track to deliver accordingly.

Before turning to your questions, let me summarize. We are very pleased with this strong set of results for the third quarter. Our businesses are clearly capturing the benefits of Aegon's strategic priorities, resulting in solid earnings growth, improved profitability of sales, lower expenses and a continued strong capital position. One of our strategic priorities is to get closer to our end customers, while at the same time providing the support which our intermediaries need to achieve the consistent customer satisfaction that is essential to our business.

In recent months we have launched a number of new initiatives that reflect our strategic focus. In the Netherlands we have launched Knab, our new online digital platform, while in the UK we have added our workplace savings proposition to the At Retirement platform. These are just two examples of how we are utilizing technology to get closer to our customers and respond effectively to the new environment. We will continue to pursue the clear strategic priorities that have served us well during the past quarter and which we have full confidence will position Aegon for continued growth in the coming years.

Before we move to the Q&A, let me remind you of our upcoming A&I conference on December 5 in New York. We hope to see you there.

We are happy to take your questions now.

**Questions and Answers**

(Operator Instructions). The first question is from Jan Willem from ABN Amro. Please go ahead.
Hi. Good morning. Jan Willem Weidema, ABN Amro. A few questions. Firstly could you indicate what IAS 19 will do to your IFRS equity and capital by January 1 based on the current situation, please?

And secondly, on your reinvestment yield, could you elaborate a bit on why you did not update it as much as you’ve done last year because, if I’m correct, current reinvestment yields are below 3.5%, which is about 100 basis points lower than last year?

And finally, could you give an update on the 2013 earnings impact of low rates? Is that still moving from 10 per quarter to 20 per quarter or is that more severe now?

Thank you, Jan Willem, for your questions. Your first question about IAS 19 and the impact on our equity, I have disclosed in this quarter that the impact based on the current assumption about the interest rate at the end of this year is EUR1.4m impact on the equity, and that is on January 1, 2013.

The second question is about the long-term economic assumptions. Let me make clear, we expect that interest rates will rise. We did not change our long-term assumptions. We have done the change last year, and we believe there is no reason to change our long-term assumptions at this moment in time.

The third question was the impact of the low interest rates on our underling earnings. I think you said it already yourself. The impact, as we have said, is $10m for 2012 and for 2013 the impact based on no change in the interest rates will be $20m per quarter for 2013.

Okay. And then the question on what IAS 19 does to your regulatory capital. Does it have any impact?

It will have an impact on our IGD. At this moment in time we are calculating what the impact will but, but I cannot give you the number at this moment in time.

Thank you.

Okay. Thank you and good morning. Three questions. Number one is on the cash flow that you gave this time. In third quarter I can see that there is a high volatility in in-force relief and also your new business strain went down significantly. So can you give us some color on what's driving that number in third quarter?

Second would be on run-off. There's a slight positive up-tick in the run-off, income from the run-off business. It was, if I remember correctly, it's [10m] or something in third quarter, used to be negative. So what's driving that change and should we expect a similar trend to continue?

And third, can you give us some update on your Pension business in the US in terms of growth and margin development? How do you see margin going forward? Should it remain flat or go up or down, something like that? Thank you.

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Thank you for your questions. Let me first answer your question about the BOLI/COLI (inaudible), but probably the run-off business. If you look at our run-off business, and you are right, it is a bit better than expected. I think in general we expect around zero for our run-off business. It's mainly in the US. And in this quarter it was a positive impact of BOLI/COLI. Maybe, Darryl, you can add something around the run-off business.

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes. I think it was strong earnings coming from the BOLI/COLI business, which is in run-off, but also better earnings coming off of the Transamerica Reinsurance transaction that we did with SCOR and the run rate. Their earnings there have improved slightly as well. And those two contributed to the swing from a small negative to a small positive.

Jan Nooitgedagt - Aegon NV - CFO

Your question about the margins going forward on the US business, I think we, in general we can say that we expect 25 basis points, Darryl?

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes. I think our target of 25bps is still a good target. We got there probably sooner than what we had expected. Obviously a scale business. And the strong market performance in the US equity market returns have helped us get there quicker than we assumed. But I think we're sitting at 26bps now, so I think somewhere in that neighborhood is good guidance.

Jan Nooitgedagt - Aegon NV - CFO

And maybe, Darryl, you can also give some color about the cash flows of the inflow.

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes. On the cash flows on the strain of new business, it's down a little bit. It's a little bit out of some of the seasonality of sales and in particular some of the more capital-intensive sales that we have.

In terms of the -- you also see a little bit of volatility between the earnings and the movement in required surplus lines. Some of that has to do with some of the assumption changes that we have made in the US as well as a contributor in here. This is based on statutory earnings development because it's statutory capital that drives the IGD ratio. And it is not always clear on the pieces between earnings versus the movement in requires surplus in US statutory earnings. I really can't give you a better answer than that. You get some non-intuitive movements between the two line items but at the end of the day it's what goes to the stat balance sheet and stat equity that really drives the capital.

Ashik Musaddi - JP Morgan - Analyst

Okay. Thank you.

Operator

Thank you. The next question is from William Hawkins from KBW. Please go ahead.

William Hawkins - KBW - Analyst

Hello. Thank you. Two questions, somewhat repeating one of the first questions. But if you had reduced your long-term reinvestment rate by, say, 50 basis points from 5.85, what would have been the impact on the third quarter? I'm assuming you've done that math.
And then secondly in the UK business, even adding back the RDR charge in the Pensions business, there doesn't seem to have been what I would have expected, which is a recovery in that result given the rise in the UK equity market. If I remember rightly, you had a very bad second quarter because of the downside leverage and I hoped there'd be some upside leverage, and that doesn’t seem to have happened. So could you explain the -- even adjusted, the underlying weakness in UK Pensions? Thanks.

**Jan Nooitgedagt - Aegon NV - CFO**

Yes. As I said earlier, William, is we have not changed our long-term assumptions. Maybe Darryl, it's basically the impact is in the US. Do you want to add?

**Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center**

William, I'd say yes, we've done the math but I didn't bring it in here with me. But what I can do is just point you back to Q3 of 2011 when we did change it by 50 basis points I think we were pretty clear in our disclosures of what the impacts were and the sensitivities really haven't changed after that number. So you can either get it from there or I would ask you to call back into IR.

**William Hawkins - KBW - Analyst**

Okay. That's good. So it would be similar to what happened, similarly sensitivities to what you showed us this time last year?

**Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center**

Yes, very similar. And I would just -- when you go back into that, just point you to that we changed not only the long-term interest rate assumption but we changed some of our separate account bond return assumptions at the same time, so just make sure you pick out the right sensitivity.

I think the other --

**Jan Nooitgedagt - Aegon NV - CFO**

Yes. The question about RDR in the UK, William, yes, we expect that with the introduction of RDR next year that profitability will increase, but I think we should take into account also that there is a -- the impact of -- the current impact will also have impact on 2013. And it is a difficult market. If you look at our results this quarter we have been impacted also by persistency and by equity markets. It is a difficult market and that will continue as well the coming quarters, what we believe. But by also by increasing the focus also in the UK on cost control we try to manage our business in the UK as well.

**William Hawkins - KBW - Analyst**

Okay. That's great. Thank you.

**Operator**

Thank you. The next question is from Hans Pluijgers from Cheuvreux. Please go ahead.

**Hans Pluijgers - CA Cheuvreux - Analyst**

Yes, good morning gentlemen. A few questions from my side. First coming back then on the reinvestment yield and your graph you give on page six of the presentation. Is it clear -- fair to see that at the moment your reinvestment yield is about 3.5%. That means clearly down from let's say from Q1, which was still around the 4 percentage point. And furthermore, how do you see, if that pressure is still continuing, that the blue line is already [overly] increases as of 2013, but what's the basis for that kind of assumptions?
And secondly looking at CAM, the impact. You've already given profitability, but what was the impact on sales?

And furthermore, last question, on your fee earnings and your cash flow targets. You're clearly already in line. Do you expect any changes in that target in the coming foreseeable future? Could you give some feeling on what you believe there is possible?

**Jan Nooitgedagt - Aegon NV - CFO**

Yes, again about the reinvestment yield, you are right. What you can see on slide six, that we are closer now to 3.5% instead of 4%. But again, we have not changed our long-term assumptions. We believe that interest rates will rise. And don't forget that we have a breathing period of five years.

Your question about CAM, the impact on sales is EUR10m approximately. And the impact of CAM, so what we have excluded in this quarter.

The question about fees, I'm not sure if I've got that question.

**Hans Pluijgers - CA Cheuvreux - Analyst**

Yes, let's say you have a target of 30% to 35% of earnings coming from fees. You're already, let's say, in line with that target. Do you expect any update there? And the same for the cash flow target. You said already that you're clearly in line to going in the direction on my calculation you're already let's say on the high end of that target. What do you believe is that possible? Do you expect that it's logical to assume any increase in that target going forward?

**Jan Nooitgedagt - Aegon NV - CFO**

We are very pleased with achieving the percentage what we have achieved in this quarter. It's part of our strategy, more fee based business. And we like to grow our business. So there is no reason to make any changes in this point of time.

**Hans Pluijgers - CA Cheuvreux - Analyst**

Okay. And one follow-up question on CAM because it's now deconsolidated, when do you expect the closing of that case?

**Jan Nooitgedagt - Aegon NV - CFO**

We expect to close that first half year in 2013.

**Hans Pluijgers - CA Cheuvreux - Analyst**

Okay. Thank you very much.
And the second question I guess is just looking at the variable annuity business. I guess similar to the question on pensions that you had earlier. Just could you update in terms of expectations around flows.

And also in terms of margins, given those are above the target range at the moment. I think you've mentioned that this might push up to 100 basis points before, in terms of margins? But I might have that wrong, so just any info. Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Thank you for your questions. They're all about the US, so I'm delighted to ask Darryl to give an answer on L&P and variable annuities.

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes, sure. Hi Robin. It's Darryl. On the life side, yes, when you adjust out for the one-offs that are in there that we've highlighted in the press release, specifically the net of the assumption changes, which was a very small number, and the post retirement medical plan that was allocated to that line of business, when you adjust that back out, you're right, we're left with a little bit soft of what my expectation would be. And some of that was some persistency results in the quarter, which I don't expect to persist. So, we might be somewhere in the $5m to $10m soft range when you adjust for the one-timers. And I would look for that to come back going forward.

On your question on the VA on, I think specifically your question was on flows and margins. Yes, we've been very pleased with the flows actually. We've made some very tough decisions on re-pricing the variable annuity product as fast as interest rates have fallen; that's as fast as we re-priced the product. And that is part of our strategy. We had been concerned that the top line might suffer more than it has in that environment. So we've been able to maintain market share and maintain the top line while being one of the fastest -- the fastest in the market to re-price in the low rate environment. Net flows have been held pretty steady over the last six/seven quarters at around $500m of net inflows, and I see that continuing as we go into 2013 and closing out this year.

Margins, we've guided 80 to 90 basis points has been our guidance on the margins. Again we're now at the upper end of that range and we've always said -- I've always said that we're headed towards the upper end over time. We got there a little quicker than I was expecting with some tailwinds from the equity markets particularly in the third quarter. So some of those margins will depend on the market levels going forward, but we're at the upper end.

Robin Buckley - Deutsche Bank - Analyst

Okay. Thank you.

Operator

Thank you. The next question comes from Francois Boissin from BNP Paribas. Please go ahead.

Francois Boissin - Exane BNP Paribas - Analyst

Yes, good morning gentlemen. Two questions please. The first one is, you mentioned the impact of low interest rates on the US underlying earnings before tax. What would be the impact for other geographies please?

The second question is on the current asset mix that you have for your reinvestments. I wonder if you could give a bit more color on that and basically the level of reinvestment yield that you get in Q3?

And another question on realized gains, what kind of trend should we expect going forward?

And on impairments, which stand at a very, very low level. Is this sustainable in your opinion? Thank you.

Jan Nooitgedagt - Aegon NV - CFO
Yes, your question about the interest rates impact, and what I understand is especially outside the US. The UK in general is not very sensitive for the interest rate levels. In the Netherlands we have hedged our guarantees so we are also not very sensitive for interest rate levels.

If you talk about the reinvestment yield, yes, it's true what you have seen. I think it was in slide six, that our reinvestment yield, what we -- at current is close to 3.5%.

And you're also asking about the asset mix?

Francois Boissin - Exane BNP Paribas - Analyst

Yes.

Jan Nooitgedagt - Aegon NV - CFO

Maybe Darryl can say something. The majority's coming from the US.

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes. Our reinvestment strategy is all in investment grade corporate and some structured, some RMBS and CMBS space as well. We've seen the new money reinvestment yield drop just over the last couple of months as spreads have come in so we are down in the 3.5% range where we were previously running at around 4%. That does put a little pressure on the earnings depending on how long that's sustained. Again you can see from our assumptions we do expect that reinvestment yields will rise over time. But the longer they stay at their current level, that's what leads to the $10 and $20 a quarter that Jan mentioned earlier.

Francois Boissin - Exane BNP Paribas - Analyst

The $20 a quarter, is based on what you see in Q3 or is based on the average 2012 year to date?

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes, we had based it -- it's not a lot of difference. So we had based it earlier at a range somewhere between 3.5% and 4%. And so if you split that range we'd be somewhere around 3.75%. We're a little off of that. So we're a little behind that, not materially so. Again we expect that to not persist at the current levels for too long. But -- so I guess I would say we're a little lower, but not materially lower.

Francois Boissin - Exane BNP Paribas - Analyst

Yes.

Jan Nooitgedagt - Aegon NV - CFO

You ask a question about realized gains going forward. It is always a bit difficult to forecast realized gains, but in general you can say with a very low interest rate environment there is more chance to have a gain than a loss.

Francois Boissin - Exane BNP Paribas - Analyst

Sure.

Jan Nooitgedagt - Aegon NV - CFO

So it is difficult to say that here, but it is part of our ALM strategy and the outcome might be a gain or a loss. And, as I said, the chances for gains is higher than losses.
Looking at our impairments, yes, we are pleased to see that our gross impairments are flat. And this quarter we had strong recoveries. But in general that can be volatile quarter by quarter.

Francois Boissin - Exane BNP Paribas - Analyst

But you don't see this going up, let's say, in the mid-term?

Jan Nooitgedagt - Aegon NV - CFO

No. What we see, and especially in the Netherlands if you look at the mortgages impairment, we see some slightly going up, and that is what we see at the moment. And the US?

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes and I think I would -- yes, I would just add from the US that we did see some strong recoveries in the quarter. So we've seen our gross impairments really come down inside of our long-term assumptions. And I see some stability in where we are on the gross impairments. But recoveries are what can be volatile from period to period. So depending on what recoveries do going forward will impact the net result.

Francois Boissin - Exane BNP Paribas - Analyst

Okay. Thank you very much.

Operator

Thank you. The next question is from Nick Holmes from Nomura. Please go ahead.

Nick Holmes - Nomura - Analyst

Hi, thank you very much. Just a couple of questions on the US, coming back to the reinvestment yield assumption, I apologize for this, I know we've gone over it a lot. But you haven't changed it, but you have pushed it out for two years. And my question is why isn't there an upfront charge for that? I appreciate that there's the $10m/$20m charge that you're getting on a run-rate basis, but shouldn't you be taking an upfront charge? That's the first question.

Then second is looking at variable annuities, just wondered if you could give us more color about the policyholder behavior assumption changes because it looks quite a big number. Thank you.

Jan Nooitgedagt - Aegon NV - CFO

Yes, thank you Nick. I think both questions are for Darryl. But in general I want to say that we do our --- or we look very carefully at our DAC assumptions and we do this quarter by quarter. So there is no reason to take any debt amortization for this quarter, because this is what we're already doing.

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes and -- hi Nick. It's Darryl. On slide six we've stopped and we've shown you the year over year picture. But the reality is every quarter we're truing up to the yield environment that we have at that time. So, a lot of that differential between the dotted line and the solid line on slide six comes in incrementally throughout the year, and through our true-out process. And they're relatively small numbers, which is why you don't really see a big one time Q3 upfront charge for the difference between those two lines.
Okay, yes.

Yes. So it's there, but it's a small number and comes in throughout the year and it's part of that overall decline in earnings that we've mentioned before from the low rate environment.

On VA specifically, in behind the $55m of policyholder behavior assumption changes, really it's a combination of lapses and longevity. And the lapse experience that we're seeing is a little higher lapses than we had previously projected. And so we built those into the models. That actually turns out to be a small negative. Or a negative on the newer product, the [WB], but it's also a positive on the older product. So the net there is about half the number. And then the rest is coming from longevity;, increased longevity on the WB product.

So, if I may follow-up, why are you seeing increased lapsation on the old book because I would have thought that would be very attractive to policyholders, it would be very, in the money?

Yes, it is. And we have a dynamic lapse formula, Nick, that calls for very low lapses because of the in-the-money-ness and the short answer is that we really just overshot it. We had lapses going all the way down to zero, and they're not zero, with us seeing some distributions for various reasons, access to cash or required distributions in some of the registered money. So it was really a case of our last assumption update we went too far and now we had to pull it back a little bit. And that is a mild positive offsetting the other two, which is really driving the 55m.

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

Thank you. The next question is from Farquhar Murray from Autonomous. Please go ahead.

Morning gentlemen, just two questions if I may. Firstly, with regards to the capital ratio of 75%, dividend up-streaming amounted to about 1.5 percentage points for the quarter and I just wondered whether you might expect any further dividend up-streaming in the fourth quarter?

And also the negative impact of again 1.5 percentage points in the holding in 3Q seemed rather high. Could I just ask what was driving that and whether we should expect a similar magnitude to come through in the fourth quarter?

And then secondly, a US peer seems to have taken a large goodwill impairment in 3Q on their retail annuity business. Now the reasons they cited for that were the interest rate curve, which I think we can dismiss to an extent. But they also cited the ongoing enquiries over the use of reinsurance captives. Could you just recap Aegon's use of reinsurance captives? And could you also just give your views on what you expect to emerge from those enquiries, and what the implications might be? Thanks very much.

Okay, yes.
Your question about the capital base ratio, yes we do expect further dividends coming from the business units quarter on quarter. So that will have also an impact on our capital base ratio. I am very pleased that we have already achieved the 75%.

And if you're asking about the Q3 movements, it's -- we get cash from, also from our operating business units. But we also pay our dividends and our expenses, interest in, we have paid in Q3. So all in all it has an impact as well.

The question about reinsurance, maybe Darryl you can address that question?

Darryl Button - Aegon NV - EVP and Head of Corporate Finance Center

Yes. And just -- hi Farquhar. Just closing out your other question on the capital ratios on the holding, you're correct. It is higher than it would normally be going forward. We had -- we actually had a reclassification from up leverage into financial leverage in the quarter, which is part of that number, and I wouldn't expect that going forward. So I would expect about half of that going forward on the holdco.

On the captive issue, you had a couple of questions in there. What's our use of captives? Let me just say that, while we have -- we do use captives throughout the US for various reasons. What I would say also is that the captives are fully consolidated into our capital ratios that we speak to you and talk to you about as well as speak to rating agencies and regulators. Some of the rating agencies have made the point in the past that that isn't necessarily true, or an industry standard. So I just want to be clear that that is our standard and that our captives are fully consolidated into our capital ratios.

In terms of the recent press on the connectivity of the captives to the write-down on the profitability, I really don't see those as connected issues. So I think there is some mixing up of issues in behind that. And I don't see that as being an impact or an influence on us in any way.

Farquhar Murray - Autonomous Research - Analyst

Okay. Just to follow-up on that, are you willing to give a sense of what the magnitude of the dividends coming up in the fourth quarter might be on the capital ratio?

Jan Nooitgedagt - Aegon NV - CFO

I think we are not normally disclosing what our future dividends will be.

Farquhar Murray - Autonomous Research - Analyst

Okay. Thanks very much.

Operator

Thank you. The next question is from David Andrich from Morgan Stanley. Please go ahead.

David Andrich - Morgan Stanley - Analyst

Hi, good morning. I've got three questions for you. First of all on the policyholder behavior and the VA charge. It's still fairly modest and you said it's split about 50/50 between longevity and policyholder behavior. I was just wondering, in terms of the conservatism of your assumptions last year, because last year you had another smaller vision of about $12m, how conservative were your assumptions last year? And then you have I guess updated it again this year. I was just wondering if this is a trend that's accelerating a little bit or do you see it being as reasonably stable?

Second one, in the Netherlands in terms of the non-life experience you said you, in the second quarter you saw a worsening in non-life experience and it sounds like that continued into the third quarter. I just wondered if you could give a bit more color on that and where that's coming through into the product line, and whether you see it -- and whether you quantify it and whether or not that was starting to turn around.
And my final question on the US RBC ratio. I noticed that you said that you'd freed up $575m in terms of additional regulatory capital through a capital management transaction. And I was wondering if you could just give a bit more color on that. Thanks.

Jan Nooitgedagt  -  Aegon NV  -  CFO

Yes, thank you for your question. Maybe it is good that you give a little bit more color again about the policy behavior of VAs. Darryl?

Darryl Button  -  Aegon NV  -  EVP and Head of Corporate Finance Center

Yes, well the reality is, we go through a rigorous process every year. And we do that process, it concludes in the third quarter. And we're really just adding one year of new experience to our existing experience analysis. And then we change the assumptions to match exactly our own experience. So in terms of how conservative are our assumptions? Our assumptions are right on top of, and match our underlying experience analysis. So I like to believe that we have the prudent assumptions that are backed by our experience.

I can deal with the third question as well, which is the RBC. Specifically it was securitization transaction on our very stable book of home service business that we have; life insurance business in the US.

Jan Nooitgedagt  -  Aegon NV  -  CFO

Yes, your question about the non-life in the Netherlands, if you look at this quarter, Q3, indeed we have some negative experience. In this quarter we have seen a lot of, double basically, what do you call them, fire claims, which we don't expect to continue. We're also looking at -- based on already on earlier this year we had, specially in the disability area we had also more claims. So we are looking at re-pricing products, which should have a positive effect going forward. So we don't expect that this negative result will repeat the coming quarters.

David Andrich  -  Morgan Stanley  -  Analyst

Okay. Could you quantify it at all, in terms of the impact?

Jan Nooitgedagt  -  Aegon NV  -  CFO

It will improve, but how much that's still to be seen.

David Andrich  -  Morgan Stanley  -  Analyst

Okay. Great, thank you.

Operator

Thank you. The final question is from Gordon Aitken from RBC. Please go ahead.

Gordon Aitken  -  RBC  -  Analyst

Yes, morning. I've got some questions on the Dutch market please. First of all with pension schemes in the Dutch market; I'm just wondering what your appetite for defined benefit over unit linked is? You're obviously piecing towards unit-linked elsewhere in your business. But the Dutch pensions market, your home market, is still very predominantly defined benefits, 93% DB and only 7% DC. So that's the first question.

The second question is you talk a bit about the demands that you see from Dutch company pension funds to buy out with you. When coverage ratios pick up for those schemes do you expect a step up in activity there?
And finally just on the longevity swaps you did with Deutsche in February this year, just wondering the capital that you freed up, what use is that capital? What's it doing right now?

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**Jan Nooitgedagt - Aegon NV - CFO**

Yes. Thank you for your questions. The question about the Dutch pension market, it is a very competitive market. It is very competitive because of the low interest rate. And yes it's true, if interest rates would come up or rise up, there is a huge pipeline. And in addition it's our policy to price also in the Dutch market based on our economic framework. We see a strong pipeline, but it is also waiting for higher interest rates. And that's what I like to share.

And if you talk about the longevity swap, I have not in front of me what the impact was on our capital. After maybe you can ask IR to give you an answer because I think we have disclosed that earlier in the year.

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**Gordon Aitken - RBC - Analyst**

Yes. The question was more about what -- at the time I remember on the conference call you said it was there to free up capital and you talked about participating in the opportunity to take on these Dutch DB schemes. Given that that's not happening yet because of interest rates, what is the freed-up capital doing?

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**Jan Nooitgedagt - Aegon NV - CFO**

Because of the low interest rates I think the amount is a relative -- we have given an amount of EUR200m, which is in the whole, if you look at the Dutch operation, not a very substantial amount of EUR200m of capital release.

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**Gordon Aitken - RBC - Analyst**

Okay. Thank you.

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**Operator**

Sir, there are no further questions.

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**Jan Nooitgedagt - Aegon NV - CFO**

Okay. Thank you very much for your questions and interest in Aegon, and have a good day.

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**Operator**

Thank you sir. Thank you ladies and gentlemen. This does conclude today's presentation. Thank you for participating. You may now disconnect.