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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Aegon first-quarter 2013 results conference call for analysts and investors on May 8, 2013. Throughout today's recorded presentation all participants will be in a listen-only mode. (Operator Instructions). I will now hand the conference over to Alex Wynaendts. Please go ahead, sir.

Alex Wynaendts - Aegon NV - CEO

Thank you and good morning. We appreciate that you are joining us today for this call on Aegon's first-quarter 2013. With me today we have Darryl Button, who will soon succeed Jan Nooitgedagt as our new CFO. And Darryl will talk you through the earnings later on this presentation and how our financial results reflect the execution of our strategy. Going forward we will jointly host these calls. Also present is Willem van den Berg, Head of Investor Relations.

But before turning to the presentation of our results I would like to take the opportunity to thank Jan Nooitgedagt, who will retire as CFO next week at our shareholders' meeting. We are all grateful to Jan for all he has done for the company during the past four years. We are today in a significantly better position than four years ago and Jan has been instrumental in driving this improvement.

As always, we look forward to your questions after the presentation and, of course, please take a moment to review our disclaimer on forward-looking statements.

Slide two. Across the organization we are fully -- remain fully committed to executing on the strategic priorities we have identified as essential to our growth and long-term success. This quarter's solid earnings, sales and deposits, as well as our continued financial strength provide clear evidence that our strategy is delivering the benefits expected.

Continued sales momentum in our accumulation and at-retirement products and the significant increase in the market-consistent value of new business confirm that our franchise is strong and that we continue to sell the right products to the right customers and at the right price.

I am pleased with the strong set of results this quarter and here on slide three we provide you with a high-level overview of our strategic key performance indicators.



Underlying earnings were solid, while net income was negatively impacted by macro hedges in the US as a result of the strong rise in equity markets in the first quarter. However, these hedging losses had no impact on our capital position. And Darryl will elaborate on this later.

We achieved continued sales momentum and our market-consistent value of new business increased significantly, in line with our objective of driving profitable growth despite an environment of continued low interest rates.

I'm now turning to slide four. As we recently announced, we have completed the restructuring of our Spanish business with a successful exit of our partnership with CAM for a total amount of EUR449m. This, together with the proceeds from our exits with Civica and Unnim, brings the total amount generated from our Spanish divestments to EUR1b.

And at the same time the strategic long-term partnership we have entered into with Banco Santander provides us with an excellent platform to serve the long-term demand for protections, savings and retirement products throughout the entire country.

During the quarter we also entered our seventh market in the fast-developing Central and Eastern Europe region, with the acquisition of Freedom Life in the Ukraine. The integration process is well underway and we have recently re-branded the business to Aegon Ukraine.

As communicated with our Q4 numbers, we have proposed to convert the preferred shares owned by the Aegon Association into common shares. On May 15 we will ask approval from our shareholders and, assuming this is approved, we expect the transaction to be finalized by the end of May.

Slide five. Getting much closer to our customer through an accelerated investment in technology and online platforms is at the center of our strategy. Increasingly, individuals research and buy financial products online, and, as such, we need to enable our customers to be in a position to connect with us in the way they choose to and more frequently. Already a lot is underway across our businesses in transforming our ability to do so. And let me just share with you just a few examples.

Now, the first example is in the Americas with the launch of Transamerica Direct, which makes it easier for customers to learn more about their insurance needs and make purchase decisions online. Once all capabilities are in place later this quarter this will be one of the first full-service online insurance sites in the US.

What this means is that a customer will be able to do everything, from conducting research on insurance to making an online purchase, without ever needing to interact directly with an agent. But of course if our customers wish to interact with an agent to seek advice we support this option as well.

In the Netherlands we launched Kroodle, one of the world's first insurers operating on the Facebook platform. Kroodle offers insurance products online, allowing customers to manage their accounts directly through their Facebook profile. And in India we were the first provider to offer life insurance online. We are now leveraging this expertise as we launch direct-to-consumer initiatives in other countries.

There are many other activities underway in the various countries where we operate that we believe will differentiate both our approach and capability to serve the growing demand for our core products online and in real time.

Sales momentum continued during the quarter, as you can see on slide six. We achieved strong growth of our New Life sales in many of our markets, and, most notably, in the Netherlands and the UK. In the Netherlands pension sales were strong and mortgage productions increased in anticipation of a new tax policy which took effect at the start of the year. And Darryl will give you more insight into our mortgage portfolio later on.

Gross deposits were lower compared with a strong quarter last year, but still at a high level of EUR10b. And VA deposits increased 34%, benefiting from a more rational pricing environment. And retail mutual fund production showed even stronger growth, with an increase of 57%. And I will come back to this on the next slide.

As we communicated previously, we intend to keep our stable value solution balance level at approximately \$60b and, therefore, these deposits were clearly lower compared to last year. And Asset Management continued to show a healthy contribution, with deposits of EUR2.3b. Accident & Health as well as General Insurance also continued to show solid growth.

As you can see, we continue to experience strong customer demand for our core products and services in each of our markets, a clear reflection of the strength of our franchise as well as the depth of our distribution capabilities.

I'm turning now to slide seven. As I have shared with you many times, selling products that provide value to our customers and to Aegon is a consistent priority. And this is clearly reflected in a significant increase in our market-consistent value of new business. In the Americas the value of new business doubled. And let me share with you a couple of highlights.



A key driver was our variable annuity business, which benefited from a higher level of sales. Improvement in Life is a result of active re-pricing and withdrawing of certain products. The introduction of a real plan pricing feature on universal life policies will further enhance profitability, enabling us to re-price products on a weekly basis based on changing market circumstances.

In the Netherlands the market-consistent value of new business increased significantly on profitable sales of mortgages as funding cost declined, but also as a result of the strong increase in pension production. And, as the slide indicates, market-consistent value new business in the UK was lower, as higher pension sales were offset by lower margins. And, finally, in our new markets the divestments in Spain offset a strong contribution from Asia.

Let me now give you some further detail on the significant increase in sales of US variable annuities and retail mutual funds and here on slide eight.

Our variable annuity business in the US continued the very positive momentum that we experienced in recent quarters. As I mentioned, we are benefiting from a more rational pricing environment and we continue to expand our distribution capacity. We are pleased to recently launch a private label variable annuity product with ING US, now called Voya Financial.

And I should note that currently 43% of the assets from variable annuity sales are managed by Aegon Asset Management, and with regard to mutual funds it's over 50% leveraging, the strong fixed income capabilities of our organization.

Turning to slide nine, you are well aware of the steps we've been taking in the UK to respond competitively in the post-RDR environment. And I would like to share with you some promising signs of success.

Our new Retirement Choices platform is beginning to contribute to sales generated in the UK. Platform sales, auto enrollment, strong group pension sales all supported by a successful marketing campaign contributed to the 37% increase in sales. And I should add that an increasing number of advisors is signing up not only for the platform, but also for our new One Retirement pension product.

This success is underpinned by the fact that we recently received two awards for our platform in the category Leading Innovation and in the category Best Workplace Savings Platform. The platform was recognized with innovative and seamless link between saving at the workplace and being in a position to manage your assets into retirement on the same platform.

Let me turn briefly now to the opportunities we see in the Dutch pension market, and I am turning to slide 10.

The pension fund buyout market provides us with what we believe a unique opportunity. Higher equity markets, as well as reduced benefit, have restored the coverage ratios of many pension funds, providing companies the opportunity to transfer their pension funds to an insured solution.

Moreover, earnings volatility created by new accounting standards for defined benefit plans, IAS 19, in addition to regulatory pressures, are accelerating the need for corporates to seek for an insured solution. And Aegon is well positioned to benefit from this trend, as we are the largest provider of insurance solutions in the Netherlands and as we had a strong solvency position as well as a recognized market expertise.

Furthermore, the innovative longevity transaction we did in 2012, which partly hedges our longevity risk, freed up capacity to capture this new business opportunity at attractive margins.

I will now turn the presentation over to Darryl, who will talk you through our quarterly results in greater detail. Darryl.

Darryl Button - Aegon NV - EVP

Thank you, Alex. Here on slide 11 I would like to take a closer look at underlying earnings. Our underlying earnings increased 1% despite the fact that we divested several of our joint ventures in Spain, in addition, experienced higher sales and employee-related expenses.

In the Americas higher earnings were driven by our Pension as well as our Life and Protection businesses. The increase was partly offset by higher performance and sales-related expenses of \$17m, as well as lower fixed annuity earnings. We continue to de-emphasize fixed annuities in the current low interest rate environment.

Underlying earnings in the Netherlands increased to EUR85m as higher earnings in Life and Savings and Non-Life more than offset lower earnings in pensions. UK earnings declined due to adverse persistency of GBP5m following the implementation of RDR.



Earnings from new markets were lower, strong sales from Asia were offset by the divestment of our joint ventures in Spain, as Alex noted earlier, and by lower earnings from Aegon Asset Management and our businesses in the Central and Eastern European region. Results at the holding level improved significantly following lower interest expenses as a result of last year's debt redemption.

Here on slide 12 you can see that in the first quarter net income was negatively impacted by fair value items. The result for fair value items were driven primarily by equity hedging losses in the Americas following strong equity market performance. I will elaborate on this in the next slide.

Gains on investments were the result of normal trading activity and asset liability management. Impairments remained very low, amounting to only EUR17m, and were mostly related to mortgages in the Netherlands and Hungary. Later I will give you more detail on our Dutch mortgage portfolio.

US impairments were fully offset by recoveries. This is the first quarter since 2007 that the US had a net recovery. Similar to what we saw in the fourth quarter, results from our businesses in run-off were negatively impacted by the accelerated amortization of intangibles in the Life Reinsurance line, following transfers of clients to SCOR. We expect this to continue into the second quarter.

Slide 13 provides more detail on our equity hedging programs in the Americas. As we have previously communicated, we have completely hedged our equity market risk related to our GMIB guarantees by implementing a macro equity hedge in 2009. Last quarter we also put in place an equity caller hedge related to our variable annuity fee revenues. In both cases these macro equity hedges are designed to protect our capital position and do not receive hedge accounting treatment under IFRS.

As a result, rising equity markets cause an IFRS loss, as the hedges are carried at fair value and there is no immediate offset in the valuation of the liabilities. And, as Alex mentioned earlier, the IFRS loss on the macro hedges has no impact on our capital position.

Assuming a 9% equity return per annum, the equity macro caller hedge will have a negative impact on IFRS fair value items of approximately \$25m per quarter. However, rising equity markets will also lead to higher underlying earnings going forward and, of course, the opposite is true for declining equity markets.

Turning to slide 14, I would like to share with you why we are confident in our Dutch residential mortgage portfolio. Our portfolio amounts to EUR22.8b and is generating attractive margins. In the first quarter we have seen impairments rise to EUR8m, equivalent to 3.5 basis points for the quarter. Higher impairments, however, are not all translated into actual losses, as clearly shown on the graph.

In addition, 55% of our portfolio and about 80% of new production is guaranteed by the Dutch State. On the non-guaranteed loans the recovery rate on defaults is high, at 78%. This is driven by the fact that in this market we have full recourse on the borrower's assets and income even after repossession. Furthermore, the entire portfolio is underwritten by Aegon's own underwriting teams and our criteria are very strict.

We continue to focus on cost efficiency, although, as shown on slide 15, our operating expenses increased 5%, to EUR804m for the quarter. The primary reason for this increase is higher sales and employee performance-related expenses in the US and exceptionally low expenses in the UK last year.

In the Netherlands expenses were lower due to cost savings, offset by investment and new distribution capabilities. And in our new markets expenses are higher due to new investments, like those related to our new business in Ukraine and growth of our Japanese business, and the Hungarian insurance tax.

We will continue to focus on expenses and I want to make clear that reducing costs and pursuing operational efficiencies are an integral part of how we manage our day-to-day business.

Operational free cash flows total EUR553m in the first quarter, including a small negative market impact of EUR7m, as the overview on slide 16 shows. Operational free cash flows for the quarter were higher than our run rate primarily due to net positive impacts of several one-time items.

This includes the positive impact of cash flow testing reserves released in the Americas and in the Netherlands, modeling refinements and methodology changes. These one-time items amounted to approximately EUR233m, putting the normalized free cash flow number at EUR327m for the quarter, in line with our expectations.

Turning now to Aegon's capital position at the end of the first quarter, here on slide 17, our Group IGD ratio decreased slightly, to 224%, as the negative impact of IAS 19 was partially offset by earnings and one-time items. The RBC ratio in the US decreased modestly, to approximately 485%, as earnings were offset by true-ups to our year-end regulatory process. The IGD ratio in the Netherlands improved to 265%, as one-time model refinements and methodology changes more than offset the negative impact of IAS 19.

Excess capital in the holding decreased to EUR1.8b, due mostly to operating and funding expenses. Dividends from business units are typically received in the second and the fourth quarter. Note that the excess capital already reflects the redemption of \$750m senior note maturing in June.



To reiterate our view on capital, we continue to believe that maintaining a strong capital position is not only prudent, but a necessity in the current environment. We are, however, constantly assessing how we manage our capital to ensure that the expectation of all stakeholders is taken into account.

Back to Alex to wrap it up before we answer your questions.

Alex Wynaendts - Aegon NV - CEO

Thank you, Darryl. And before taking your questions let me reiterate that we are fully committed to execute on our strategic priorities and that our first-quarter result provides clear evidence that they are the right ones. We see strong profitable sales of our core products, [which] generate solid underlying earnings with a continued strong capital position.

The continued strong customer demand for our core products and services in each of our markets is a clear reflection of the strength of our franchise, and that of our distribution capabilities. And, finally, across our business, new business models and innovative online capabilities are sure to transform our ability to connect better with our customers in the way they choose to in order to serve their broader financial needs.

As always, we appreciate your continued interest in Aegon and in what we're doing to generate long-term value for our customers, our partners and our shareholders. We are happy to now take your questions.

QUESTION AND ANSWER

Operator

Thank you, sir. (Operator Instructions). The first question comes from Mr. Murray. One moment, please. I'm afraid Mr. Murray has cancelled his question. The next question comes from Farooq Hanif from Citigroup. Please go ahead.

Farooq Hanif - Citigroup - Analyst

Everybody, good morning. If you don't mind, I've got three questions. Just stop me if I get a bit boring. But the first question is can you go back to this additional collar hedge and remind us of the rationale for it? The reason I ask this is that your capital position in the US seems quite solid. The volatility, market environment is going down. I can understand why you did the macro hedge on the GMIB. That was obviously protecting your GMIB book. Could you explain why you did this and also how you will adjust it going forward?

Second question is on the VA business. You've had, it seems to me, probably quite a significant increase in market share in VAs. With new distribution coming on board where is your market share and do you think it's going to improve further? So in terms -- can you give us some numbers on market position that you may be targeting?

And, secondly, could you just explain what the true-ups were in the US RBC ratio? Thank you.

Alex Wynaendts - Aegon NV - CEO

Farooq, thank you for your questions. Let me give you general statement around the rationale about putting in place hedging. As you know, we've been very consistently saying that we want to protect our capital position. We want to reduce our dependence on the financial markets. And it's in that context that we look at ways of effectively protecting our capital position.

This becomes, obviously, a very visible item here in Q1, but keep in mind that the S&P, which is the one over which we hedge our position, increased by over 10% in the first quarter, which I think is quite unusual. We continue to stick to, I would say, a strategy of reducing our risk, of limiting our exposure to financial markets and it's within that context that this hedging took place. But I want to ask you, Darryl, to be more explicit about why we've chosen this hedge.



Darryl Button - Aegon NV - EVP

All right, yes. Hi, Farooq, it's Darryl. Just to reiterate what Alex said, it's absolutely consistent with our strategy in taking down our capital markets leverage and our capital markets risk. In particular, the VA fee income, if you will, is volatile inside of our US statutory and capital formula. So we are holding capital for this fee risk. And we thought it was very much an inefficient way for us to take equity market exposure. So we've concentrated the hedging in here to take down our capital volatility and our capital risk.

These are economic style hedges, they do not get accounting -- hedge accounting treatment, so we do incur the IFRS upfront losses which will be offset by the higher fees going forward. But it is absolutely geared to stabilize our capital position and reduce our dependency on the capital markets, which we have been very consistent in delivering that message.

How to go forward? It is a one-year hedge we put it on. We are -- we will probably give you an update as we go throughout the year whether we continue to roll this beyond the end of this year. The tenure of the hedge itself, though, carries it through the end of 2013.

In terms of VA market share, if I could go onto your other two questions, we are number eight in the market right now from a market share perspective. That has increased over the last year as there has been more rationalization, if you will, in the market. I would say we've been very consistent and stable with our approach, our strategy, our story. We have been adding distribution and that has got us up to number eight.

And the third question I might as well go ahead and hit was your true-ups to the RBC. This is a normal process for us. Our regulatory filings aren't done until the end of March, so we make an estimate at the end of the year and we include that estimate in our fourth-quarter results and we communicated those with you. We did have some true-ups to the RBC capital formula itself and that lead to a small decrease in the RBC in the quarter.

Alex Wynaendts - Aegon NV - CEO

Just one point, Farooq, to add is that the number-eight position on the VA market is equivalent to just a bit less than 4% market share. So that gives you a little bit of sense also of how fragmented the market is. But also there is clearly more opportunity for us to expand our market share. We remain committed to selling, as we said, the right product at the right price with the right risk profile, very consistent with what we've been saying all along.

Farooq Hanif - Citigroup - Analyst

Can I just go back on the equity collar macro hedge? You said, obviously, that it's economically based, so it helps economic capital. Is it also aligned to the economic tests in the US for VA, so it's C3 phase 2 and, therefore, does it help you actually release capital but can be upstreamed from the US? Or am I just going about this the wrong way? Is it just really to protect downside?

Darryl Button - Aegon NV - EVP

No, you're going at it exactly the right way. The answer is -- to your question is, yes, it's absolutely aligned with the C3 phase 2 capital calculations in the US, which are economic based.

What this does is it takes our capital sensitivity in the US to equity markets down to essentially zero. We had no capital market sensitivity due to the move in equity markets on our capital base in the US this quarter. Obviously, the markets went up and the equivalent is true if the markets were to go the other way as well.

Farooq Hanif - Citigroup - Analyst

Okay, thanks very much.

Alex Wynaendts - Aegon NV - CEO



And clearly what you see here is some form of disconnect from an accounting point of view, where the mark to market is fully taken in one quarter and where all the benefits that emerge quarter after quarter will emerge from here on, but you don't take them into account, so it's somewhat of a disconnect in the way we have to account for it. But that's the reality of accounting. That's why we'd like to provide you the additional explanations here.

Farooq Hanif - Citigroup - Analyst

Okay. That's very clear, thank you.

Operator

The next question comes from Albert Ploegh from ING. Please go ahead.

Albert Ploegh - ING - Analyst

Yes, good morning, gentlemen, a few questions from my side. First is on the Dutch mortgage book. Can you disclose maybe also the LTV in the book and what the percentage of LTV is above 100%? And, correct me if I'm wrong, I think most production in the book took place probably after the peak in the market in 2007/2008. Can you maybe confirm a bit on the vintage breakdown there? That would be helpful.

Second question is on the run-off activities. I saw a EUR35m loss for the US -- in the US Reinsurance line. Is that anything a one-off that happened in Q1?

And my third question and final question is on your core capital ratio, which is based on the net debt calculation of the debt you have outstanding. On a gross basis the rating agencies seems that they want that to basically reduce, because they look more at a growth basis where the leverage probably is still over 30%. What can you share on that [and] how [are you] looking at the gross leverage within the Group? Thank you.

Alex Wynaendts - Aegon NV - CEO

Albert, on the Dutch market we'll provide you outside of this meeting some specific additional information look like. But I think that the couple of issues which I think are important for the Dutch mortgage market and your base here so you're familiar with it, is that the business in which we are in is, as you know -- for the largest part 80% -- or more than 80% of new production is guaranteed by the Dutch State. And of the in-force it's over 50% that's guaranteed by the Dutch State.

What you see in general is that, obviously, all the vintages have lower LTVs, but in my view that isn't always the most relevant item. The most relevant item for -- when you look at the mortgage portfolio is much more related to the ability of the one that takes the mortgage to pay it up. That means that unemployment is an important item. It means also in many cases the -- I would say, the marital position.

A lot actually of mortgages where we see there are issues are couples that, for example, divorce. They have to deal with one house for two people. That has more impact on impairments. But by and large, as you can see, the impairments which we have had on our mortgages are extremely low. And if you then look at the recoveries you see that even -- it's even lower than that. The dynamics in this market are clearly very different.

We will provide you some more information separately, but I just want to make the point that we focus on what we think is most important and where the correlation is big -- with the biggest where the quality of the portfolio, which is about the ability to pay the monthly installments. But I will follow up with you.

Albert Ploegh - ING - Analyst

Okay, thank you.

Alex Wynaendts - Aegon NV - CEO

On the run-offs I will Darryl. And on the net debt I think it's a very fair point you're making. There is clearly more focus on gross debt versus net debt. And Darryl can pick it up. But we'll also provide you more of this when we have our meeting -- our analysts' meeting later in June in London.



Darryl Button - Aegon NV - EVP

Hi, Albert. Yes, on the run-offs there is something going on. We are accelerating the amortization of the intangible that we have related to the SCOR transaction, so there is a little less than \$600m pre-tax intangible asset sitting out there related to that transaction. What happens is as our business novates away from our paper and over to SCOR we accelerate the amortization of that.

SCOR has been putting a push on to do some of those novations. So that started to tick up last quarter, we saw it this quarter and I expect it to continue into at least next quarter. But by the back half of this year that should settle back down into a more normal amortization run rate, somewhere in the \$10m to \$15m. So we are running \$20m, \$25m higher than expected and I expect that for another one to two quarters.

The CBR ratio, just to add to what Alex said, yes, we are looking more and more at the gross leverage ratios, certainly. The -- our CBR ratio is a net leverage ratio where we net off the excess capital off of the leverage. The rating agencies do tend to look more on a gross basis. Fitch in particular is the one you're referring to, who made a comment on our gross leverage ratio being on the high side there. There's also another comment buried inside of there in terms of the hybrid capital and how they treat that in that gross leverage ratio.

So it is an issue that we are looking at. We are managing, I would say, more on a gross leverage basis going forward. And I will give more of an update on this topic in June.

Albert Ploegh - ING - Analyst

Okay. Thanks very much.

Operator

The next question comes from Ashik Musaddi from JPMorgan. Please go ahead.

Ashik Musaddi - JP Morgan - Analyst

Yes. Hi, thanks a lot. So the first question is on the US. Can you give us some color around what sort of ROE are you looking for in your variable annuity, the business that you are writing right now, and how does that compare with the market pricing? So that's the first question.

Secondly, on new business strain in first quarter reduced a lot, from EUR340m last quarter to EUR260m. What is driving that? Is it the UK, or is it something else? So if you can give some color around that. Thank you.

Alex Wynaendts - Aegon NV - CEO

Thank you. Darryl, would you want to say something about pricing and on our VAs thing?

Darryl Button - Aegon NV - EVP

Yes. So we're fully market-consistent pricing on our variable annuity, which means we have costed all of the hedges inside of the pricing itself. We look for adjusted IRRs north of 11%, in that environment, but the key is that we have bring -- we have brought, basically, the full hedge costs and the full market-consistent pricing into that number already and that's what we would look going forward.

From a new business strain, I don't have an exact attribution, but what I do know is we have taken down some of our more capital-intensive sales by reducing some of those sales in the US in the Universal Life products. And we have been increasing our fee-based businesses and they are less capital intensive. So I think it's more of a mix of business than anything.

Alex Wynaendts - Aegon NV - CEO



Absolutely. And at the UK the effects of, let's call it, post-RDR, where we're not allowed to pay commissions, they will be felt and we'll see them probably in Q3, because the effect in Q1 and Q2 still has an overflow from business that was sold in the old regime. So the new environment in the UK is not affecting yet this number. That will only be the case in second half of the year, because policies that are sold in December they'll get on the books over a period of up to six months.

Ashik Musaddi - JP Morgan - Analyst

Thanks. Just a follow-up on the US question, can you give us some color on what sort of ROE are you looking? Are you still looking at around 12%, 13% ROE on the US new Vas, or has that changed given that your market share has increased significantly? So I was just wondering if there is any change in that -- those target ROEs.

Darryl Button - Aegon NV - EVP

No, there's actually been no change on our pricing philosophy. And in fact, actually, in December in New York I think our annuity team actually gave some color commentary in terms of the expected new business returns. What I would say is that there's been no change on our side on our pricing discipline. And the additional market share that we're picking up, it's well known that the top market share that was going in the top five, they're pulling back on those sales and so we're picking up some of that without any change on our side.

Alex Wynaendts - Aegon NV - CEO

If you look at the table which was provided on the market-consistent value new business you see that effectively in the US there was a doubling of our market-consistent value new business. And although we do not provide a breakdown by product I can -- what I can say is that clearly the business line 'variable annuity' has been a contributor to the increase -- the significant increase in market-consistent value of new business.

Ashik Musaddi - JP Morgan - Analyst

Yes, thanks a lot.

Operator

The next question comes from Marcus Rivaldi from Morgan Stanley. Please go ahead.

Marcus Rivaldi - Morgan Stanley - Analyst

Good morning. I just have, sorry, follow-up questions on the debt de-leveraging points I'm afraid. Just on that Fitch press release, they talk more about net senior debt in your calculations. So I was wondering whether, therefore, the focus more to gross is more of an important driver for senior debt than it is for your hybrids.

And then back to the hybrid point. Is there a substantial amount of your hybrids at the moment that are not qualifying as regulatory capital, perhaps, due to limit impacts from your local -- from your Dutch regulator? Thank you.

Alex Wynaendts - Aegon NV - CEO

On your first question, Darryl will be more specific, but I think it's clear that we are looking more at the senior debt here in terms of gross leverage.

On the hybrid debt, when we announced the agreement which we had reached with -- we have reached with the Aegon Association we've explained that part of the benefit for the Company and, therefore, also for the shareholders is that most -- we said the vast majority of hybrid capital would be grandfathered by our Dutch regulator and would be classified in core tier one. But that is the biggest part of the, what, EUR4.5b of hybrid capital. So you can be assured that that effectively is grandfathered, un-Solvency II and also firmly as tier one.

Darryl, do you want to say --?



Darryl Button - *Aegon NV - EVP*

Yes. On Fitch, in particular, their primary gross leverage ratio, they actually don't give any equity credit to hybrids at all. So they look at a hybrid leverage ratio that actually -- where all of the seniors and the hybrids are counted on equal footing. But at the same time they also acknowledge that that's a tougher calculation than some of the other agencies, so then they have higher ratio thresholds. So that's just a little bit into the nuances of how they look at it.

In terms of the hybrid counting as capital, yes, so currently in our current -- under Solvency I and all of our current binding regulatory conditions our hybrid is fully counted. We believe that -- and, as Alex said, we believe as we transition -- and the reason for the [prep share] transaction is to protect that hybrid capital in the Solvency II -- post-Solvency II world. That being said, there are limitations in that world related to the amount of hybrid capital that can count as tier one capital. And I've said in the past and I will continue to say that we think we can protect about 80% of our hybrid capital in that post-Solvency II world.

Marcus Rivaldi - *Morgan Stanley - Analyst*

So -- but it seems -- well, I'm sure we'll hear more about this in June, but it seems that for now, therefore, the -- your focus is more on a -- on the senior part of the debt structure.

Darryl Button - *Aegon NV - EVP*

Well, as I'm -- yes, I think you're right in saying we'll hear more about it in June. But I think it is fair to say that as we plan for a post-Solvency II world that our expectations are that, as I said before, 80% of our hybrid capital will count as tier one. So that does leave us with probably a little more tier one than -- or a little more hybrid than what we need. So that's the update that I'll give you and try and give you the whole picture in June.

Marcus Rivaldi - *Morgan Stanley - Analyst*

Okay, thank you very much.

Operator

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

William Elderkin - *Goldman Sachs - Analyst*

Good morning, everyone. Two questions, please. First of all, could you just elaborate a little bit more on the opportunities in the Dutch corporate pension market? It's a while since I've heard you sounding so optimistic on that front. And particularly give us a sense of what your pipeline looks like and also the new business margins or IRRs you're getting on those products.

Secondly, just briefly on the UK business -- on the UK pensions business, if I exclude the charge for RDR-related lapsation the underlying pension earnings do seem to have improved somewhat. Is that just reflecting normal underlying business developments and is that something I can think about for forecasting?

Alex Wynaendts - *Aegon NV - CEO*

Yes. I think we've been speaking for already quite some time about the Dutch pension opportunity, William. As you know, we've been positioning ourselves for the moment that these ratios -- coverage ratios for Dutch pensions at least would get above 100, because below 100 it makes it very uneconomical for companies to transfer liabilities because then they have to add cash to the proposition. In addition to that, the new accounting standards, which effectively made liability of pensions a part of the balance sheet of a company, is something companies are not at all happy with.

And this, combined with, I would say, clearly pressures from our regulators in terms of governance, in terms of who is qualified to be a member of the Board on pension funds all together means that we see this pipeline coming through. We wanted to make sure that we position ourselves in a proper way. That means we've



actually freed up capacity by the longevity hedge which we've done at the end of -- in 2012, so we have additional capacity. We have a recognized strong financial position.

We're clearly the highest rated insurer in the Netherlands. And with all the turmoil, including what we see in the Netherlands, that is now creating more traction than it has in the past. And the fact that we are a large player, a dominant player, means that we are now seeing that this pipeline, which we saw coming and where we position ourselves for, is now slowly emerging. Q4 was very clear and Q1 shows a continuation of that momentum.

It's about making sure that we price this product at the right level. And we've been very consistent. We want to do this at the right pricing level. And what we see is a more rational environment, by the way, now than we have seen some time ago. Not surprising, because there's going to be more demand for it now than really there is capacity available.

For the UK, Darryl, what would you like to --?

Darryl Button - Aegon NV - EVP

Well, yes, I think you're right. In the UK we really have two things going. So the UK earnings are holding pretty stable, but what's happening is the persistency and the RDR bubble that's rolling through, I would say, all else equal, took down earnings about EUR7m related to that phenomenon, and it was offset by market improvement.

So the underlying earnings in generation capacity in the business is up on the markets, as you would expect, and we're rolling through an RDR bubble. And that RDR persistency bubble will be with us for at least another quarter and it will be the end of the year before we phase out of that.

William Elderkin - Goldman Sachs - Analyst

Good, thank you.

Operator

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

Maarten Altena - Mediobanca - Analyst

Good morning, gentlemen. Three questions from my side as well. First, on the US book your fixed annuity margin dropped to 1.1%, which is a massive 40 bps year-on-year decrease. Presumably you are now willing to re-risk your investments, so would you be able to lower your credit rate towards the average guarantees rate, or is there too much of competition? Could we have some more color on the different leverage to pull on the FAs?

Secondly, on the variable annuities, the cost of hedging on these products should have come down on the back of the low volatility in the first quarter of 2013. Can you quantify the impact on the underlying results? And in general do you release these benefits straightaway, or do you tuck this into reserves?

And as a follow-up on the VAs, as of May, you seem to have teamed up with ING. What exactly did you do and what shall we expect from this initiative going forward?

And then, lastly, I'm sorry for that on the Dutch pensions, which looked promising. And assuming attractive return on capitals what about your willingness to redeploy more capital into this activity in order to gain more Group pension contracts, especially now these critical drivers seem to accelerate more positively to unlock potential? And could you quantify what you aim to gain in terms of [mandates]? Thanks.

Alex Wynaendts - Aegon NV - CEO

Thank you for your questions. I will start with the third question and then pass it onto Darryl on fixed annuity margins and cost of hedging for variable annuity.



What I said on the Dutch pensions, effectively, we have freed up balance sheet capacity by doing the longevity transaction we did in 2012. So I think we have the capacity now. What we want to make sure is that we utilize this capacity with the right margins. And that's why I said we're not rushing into this business, because we see there is quite a significant pipeline coming in. It's always a bit bulky in the sense that you get a contract in a quarter, a big one, and so it's never very linear and very predictable quarter on quarter.

But what we're clearly seeing is that pipeline is coming to us. What we're seeing is that we have the capacity. We freed up capacity and we just want to make sure that we do this with the right pricing, so very difficult to give you more explicit numbers.

Darryl, do you want to take the two questions on fixed and variable annuities, please?

Darryl Button - Aegon NV - EVP

Yes. On fixed annuities, yes, spreads have been coming in. I would say that it's a function of a couple of things. First of all, the lapse rates continue to be very low, although they've up-ticked a little bit here recently because we've had more business coming out of a surrender period. However, that also makes -- from our ALM perspective that means more of the business is now becoming more liquid, so we have to back more of the business with cash and shorter-term instruments from an ALM perspective.

And so that does pressure spreads. And that's exactly what you're seeing. That effectively is a consequence of the fixed annuity run-off. We knew this was going to happen. As the interest rates remain low, the lapse rates remain low, it extends and we end up incurring spread compression as a result. So that's predictable and expected.

There really aren't a lot of levers to pull. We pulling the levers that we can pull. We're pretty much at minimums wherever we can be at minimums. There are some higher crediting rates from some term-guaranteed product and as that rolls off to the end of the term we go ahead and we drop the rate at the end of the term. So there is a little bit of offset that can happen, but it's a staged offset as business comes out of the -- out of a term period.

On your variable annuity question on the hedging, yes, unfortunately, the -- where the volatility comes into play is on the fair-value product, which is the new product where we have hedges and the product all carried at fair value. And there is no accounting mismatch, so the results are much tighter every quarter.

That volatility is inside of there, but we have done some volatility in gamma hedging inside that program as well, so it's not that material. But it's all built in, along with a lot of other factors that come to that fair valuation every quarter. So it's there and inside there, but it was I guess, I would say, dwarfed this quarter because of the macro hedges and the significant move in the equity markets.

Maarten Altena - Mediobanca - Analyst

Okay, very clear. Thanks.

Operator

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

David Andrich - Morgan Stanley - Analyst

Hi, good morning. Yes, just coming back to the Dutch pensions, I just want to -- just to clarify, but -- so you guys were able to achieve your IRR and return on equity targets for the pension plans?

And the second one, I just want to ask about the competitive environment there at the moment in regards to the Dutch pension market and whether also you would consider doing -- it sounds like you already have the capacity you need, but whether you would consider doing an additional longevity swap.

Alex Wynaendts - Aegon NV - CEO



Yes, on -- in terms of returns, what I mentioned when I spoke about MCVNB, I did say that the Dutch -- the MCVNB in our Dutch business increased and I did mention explicitly that it was also as a consequence of increased sales. So we have an MCVNB which is positive for the Dutch pension business and that contributes to you adding value at levels above our own hurdle rates. So I hope that is a clear answer.

In terms of capacity we've done a -- what I would say was a very clearly market-leading, innovative transaction. We continue to look on a very regular basis at opportunities for us to reduce exposure, or to sell exposure at a certain price, freeing up capacity so that we can then be more aggressive in the pension market and have better margins. So the whole idea, this only works if we can sell it at a lower cost of capital and then deploy it then at a higher cost of capital. And that's what we see is now more possible than it was in the past.

David Andrich - Morgan Stanley - Analyst

Great. And, sorry, the competitive environment?

Alex Wynaendts - Aegon NV - CEO

Well, what we see is that we are the [leader] in the market, that the number of active players is quite limited. We see that the environment in terms of pricing at the same time also becomes more rational, which I think is a positive development and one we feel pleased about, because we have tried to contribute to avoid having here an aggressive pricing environment because that doesn't make any sense to deploy capital on that way.

David Andrich - Morgan Stanley - Analyst

Great, thank you very much.

Operator

The next question comes from [Nick Holmes] from Soc Gen. Please go ahead.

Nick Holmes - Societe Generale - Analyst

Hi, there. Yes, I had just a couple of questions. First one is coming back to the VAs. Sorry to harp on about this, but your strong VA sales. I just wondered if you could give us a bit of color about the product risk you're taking, like the level of guarantee and the asset allocation.

And then, secondly, in the UK, I wondered, could you also give us a bit more color on the losses due to the adverse persistency and explain why you're so confident that the RDR bubble should stop after Q2? Thank you.

Alex Wynaendts - Aegon NV - CEO

Darryl?

Darryl Button - Aegon NV - EVP

Yes. On the product risk on the VA in the US, Nick, the biggest change over the last, really, I'd say 18 months, 24 months, is we've pushed all of our product into the vol control funds, which basically gives us a lot of risk mitigation in the underlying funds itself. So there is a high fixed-income content inside of these funds as well as the ability to change the equity fixed-income mix, if you will, depending on volatility levels in the market. And that serves to reduce the underlying volatility significantly of the products and of the funds that we're putting the guarantees on.

Nick Holmes - Societe Generale - Analyst



So would you say that you are still very much at the lower end of the product risk spectrum?

Darryl Button - Aegon NV - EVP

Yes, though I'd say -- yes, but I'd say that -- I would also say that we've seen a lot more rationalization. So there are various studies out there, third-party studies and independent studies from some of the actuarial firms that do some of those analyses and rankings. And what you see is you see a tightening up. We also see some exits as well, but you see a tightening up, if you will, from a product risk perspective with still a couple of outliers out there. But you see much more rationalization than what we saw 18 months ago.

Nick Holmes - Societe Generale - Analyst

And if you had to -- (multiple speakers). Sorry, do continue.

Alex Wynaendts - Aegon NV - CEO

Your second question on the UK in terms of how confident we are that the bubble will be for the first quarter, keep in mind that what we see now is a flow -- is an overflow of products and contracts that were signed just before December 31. So you could expect that within six months normally that effect is going through. After that period there's much less incentives for intermediaries and for advisors to move business from one provider to another provider, because there is no commissions anymore that is driving that incentive, so it's reasonable to assume that we get [them] back to a more normal level.

Darryl Button - Aegon NV - EVP

Yes. And I used -- in my prior question I used the end of the year, I think, intentionally. I think we'll start to see it come down in the third quarter, but I think it'll be the fourth quarter before we get a good clean look at a post-RDR persistency rate.

Nick Holmes - Societe Generale - Analyst

Right, okay. Thank you very much.

Darryl Button - Aegon NV - EVP

Okay.

Operator

The next question comes from [Edward Donoghue] from One Investment. Please go ahead.

Edward Donoghue - One Investments - Analyst

Good morning, gentlemen, probably a more general question. I apologize. You made good progress on the leverage ratio in Q1, now at 76.3%. Could you give some color for us on the use of capital generation, including disposals, to make further progress to the 75% threshold that's deemed important by the rating agencies?

Alex Wynaendts - Aegon NV - CEO

Just one point of clarification, the 75% was an agreement we had with the European Commission to be at the level of at least 75% by the end of 2012. That commitment is now not in force anymore, so it is not as it was until the end of the year.

And I'll pass it onto Darryl.



Darryl Button - Aegon NV - EVP

Yes. What I would say, just a general answer to your question, keep in mind there is very -- other than our normal interest expense there wasn't a lot of extraordinary cash flow out of the hold co this quarter. I would just remind you that we have the pref share transaction which we announced earlier. We expect to close in the second quarter. That's EUR400m of cash. We will also have our final dividend paid -- from 2012 will be paid in the second quarter as well. So there are already a number of cash flow items lined up for the usage of that cash in the second quarter and that'll impact that CBR ratio, of course.

I just want to come back maybe on something I said earlier too. I talked about the hybrid capital and I was giving a long-term view beyond Solvency II, post-Solvency II world, in terms of the amount of hybrid capital that makes sense for us. But also in the near term, I did cover it in my opening comments, but we don't plan on -- we do not plan on refinancing a \$750m note that's coming due in the second quarter as well. So from that perspective we have allocated cash to substantial senior note deleveraging in the second quarter in addition to the pref share transaction.

Edward Donoghue - One Investments - Analyst

Great, thank you very much.

Operator

The next question comes from Paul De'Ath from RBC. Please go ahead.

Paul De'Ath - RBC Capital Markets - Analyst

Yes, good morning. A couple of questions, if I may, just to clarify a few points on the corporate pensions business in the Netherlands and the UK. Firstly, in the Netherlands the average coverage ratio of the pension funds is now at 107%. I was just wondering what kind of level of coverage your normally tick the pension funds on at. Should we think of 107% as being the -- a level at which you will take this on, or does it need to be higher than that in order to get the business onto your books?

And the second question was just on the UK corporate pensions. Obviously, the sales have been strong in the quarter, but the market-consistent VNB is actually down and you say it's being offset by lower margins in the UK. Is this just due to mix, selling more of the corporate pensions business, or were margins depressed in the run up to the end of RDR? And how should we look at margins going forward in this business? Thanks.

Alex Wynaendts - Aegon NV - CEO

Yes. On the Dutch corporate pensions the 107% is an average number and is quite, actually, a variance amongst different pensions. But I would say 105% is the kind of threshold that you should consider when thinking about transferring liabilities to an insured solution.

In the UK, you're right, sales were up. We did mention that. So sales were up, volumes were up. But in the run up to RDR we have seen some more aggressive pricing and we had to accept somewhat lower margins also to protect our business and our back book, which is equally important. So this was somewhat of an -- yes, I should say, an extraordinary period where there was a lot of activity which was -- had a final end at December 31. And therefore in order to maintain our position, protect some of our back-book businesses, we've had to be a little bit more aggressive on margins.

But what I think is important to see is that we have launched our platform proposition now, that we are getting a traction there on our platform with margins we are happy with. It will take some time before we get to the very significant amounts, but what I'm seeing here is, month over month, we're seeing very significant improvements. And also in our June presentation in London our UK team will be in a position to provide you a good update on what we're doing here. I think it's actually quite exciting that we have been able to transform our business in the UK and adjust so well to a new reality which is now post-RDR.

Paul De'Ath - RBC Capital Markets - Analyst

Okay, thanks.



Operator

The next question comes from Benoit Petrarque from Kepler. Please go ahead.

Benoit Petrarque - Kepler - Analyst

Yes, good morning, just a remaining question on my side. On the Dutch mortgage portfolio I think you have around 50% of your general account in the Netherlands which is invested in residential mortgages. And I was looking at the new production figure for Q1 on Dutch mortgages. I think it's around EUR750m higher than last year.

It goes a bit against the trend we've seen on the -- in the industry here, i.e., most of the insurance actually lowering the new production on Dutch mortgages. So I was wondering, taking into account your high stock of mortgages, why are you continually -- are you -- why you continue to actually push the production there.

And then it looks like you are on the 14 bps in Q1 on an annual basis. What will be your outlook for the rest of the year in terms of impairments on Dutch mortgages? Will that be around 15 bps or higher? Thank you very much.

Alex Wynaendts - Aegon NV - CEO

Yes. On your question on the mortgages it is true that we have EUR20b -- or EUR22b of assets. But, as I said, of our stock we have over 50% is government guaranteed -- guaranteed by the Dutch government. That means that it's a Dutch government guarantee. And of our new production in last years over 80% is guaranteed by the Dutch government.

So you see that, as such, the older mortgages proportionally have a less bigger part which is guaranteed by the government, but in these cases, loan to values are significantly lower. So it is an asset which is a mortgage asset but with a Dutch government guarantee, so we're looking at it as a Dutch government risk which we're taking here.

When we talk about production in the first quarter there was a number of elements because of changes in the tax law, which means that we're seeing some acceleration of production. We do not expect this to continue. And, by the way, we also need to keep in mind that we are also losing assets because people have been redeeming. And particularly in the context of the new -- the changes in law we have seen an acceleration of redemptions on the mortgage side.

Benoit Petrarque - Kepler - Analyst

Maybe just -- sorry, just on this point, is the expected duration on the -- on your book in line with the trend you see, i.e., probably de-leveraging of households and repayment of Dutch mortgages?

Alex Wynaendts - Aegon NV - CEO

Well, what is an interesting point you're raising, that these mortgages, because of the very low interest rate environment in the Netherlands, are mostly long-term mortgages. So what we're doing is we're attracting long-term liabilities which we can very match -- very well match with our long-term assets.

So for an insurance company the fact that these mortgages are long-term mortgages versus short-term mortgages, which is mostly where banks position themselves, actually it's an attractive tool for us in terms of asset liability management. And that's, I think, part of the reason why we've been able to be in that business and generate also good margins.

Impairments, they remain extremely low. They remain well below pricing hurdles. And the Dutch market we could see in general higher markets. But again here I need to remind you that we have this protection of the Dutch government guarantee for 80% of new production over the last years and over 50% of the entire in-force. So this is an asset which we're very comfortable and we're very pleased to have on our books also because it serves a very good purpose from asset liability management.

Benoit Petrarque - Kepler - Analyst



Thank you very much.

Operator

There are no further questions at this point.

Alex Wynaendts - Aegon NV - CEO

So thank you all for participating in this call. Thank you for your attention. And obviously we, the team, are hoping to see you in London at our conference. Look forward to seeing you there. Bye bye.

Operator

This concludes the Aegon first-quarter results conference call. Thank you for participating. You may now disconnect your telephone.

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