

THOMSON REUTERS STREETEVENTS

# TRANSCRIPT

AGN.NA - Q1 2016 Aegon NV Earnings Call

EVENT DATE/TIME: MAY 12, 2016 / 07:00AM GMT



MAY 12, 2016 / 07:00AM GMT, AGN.AS - Q1 2016 Aegon NV Earnings Call

## CORPORATE PARTICIPANTS

**Willem van den Berg** *Aegon NV - Head of IR*

**Alex Wynaendts** *Aegon NV - CEO*

**Darryl Button** *Aegon NV - CFO*

## CONFERENCE CALL PARTICIPANTS

**Ashik Musaddi** *JPMorgan - Analyst*

**Farooq Hanif** *Citigroup - Analyst*

**Nadine van der Meulen** *Morgan Stanley - Analyst*

**Farquhar Murray** *Autonomous Research - Analyst*

**Gordon Aitken** *RBC Capital Markets - Analyst*

**William Hawkins** *Keefe, Bruyette & Woods - Analyst*

**Mark Cathcart** *Jefferies - Analyst*

**Matthias de Wit** *KBC Securities - Analyst*

**Bart Horsten** *Kempen & Co - Analyst*

**Nick Holmes** *Societe Generale - Analyst*

## PRESENTATION

---

### Operator

Good day and welcome to Aegon Q1 results 2016 conference call. Today's conference is being recorded. And at this time I would like to turn the conference over to Mr. Willem van den Berg. Please go ahead, sir.

---

### Willem van den Berg - Aegon NV - Head of IR

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

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

---

### Alex Wynaendts - Aegon NV - CEO

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

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

While capital position remained solid and well within our target range, our Solvency II ratio reflects the return of capital to shareholders and a diverse market impacts. Excluding market impacts and one-time items, capital generation amounted to approximately EUR300m.



Our strong sales story continues, with sales increasing by 36% to EUR3.6b. This growth was mainly driven by higher deposits of EUR30b. And the strategic steps in the UK that we announced recently will drive further growth of our fee-based business.

On slide 3, you can see that underlying earnings increased this quarter by EUR30m compared with last year. So let me run you through the main moving parts.

In the Americas, earnings declined slightly as an improvement in claims experience was more than offset by lower earnings from fee businesses. This was partly as a result of lower equity markets, and this is something I will come back to on the next slide.

In Europe, earnings increased by 20% to EUR169m. This increase was mainly driven by lower deferred acquisition costs in the UK as a result of the write-down of debt related to upgrading customers to the retirement platform in the fourth quarter of 2015.

Asset management earnings were again strong at EUR45m and benefited from continued high inflows and performance fees. This quarter, as you will have seen, we have adjusted our financial reporting to reflect both the growing importance of asset management and our increased focus on Asia.

Finally, holding cost declined to EUR36m due to lower funding cost following the redemption of senior debt at the end of last year.

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

As you can see on slide 5, net income amounted to EUR143m this quarter and was impacted by losses from fair value items of EUR358m. These losses were driven by lower-than-expected returns on alternative investments, in particular hedge funds, as well as by a macro hedge program in the US and by guarantee hedge programs in the Netherlands. While our alternative investments showed poor performance, they continue to perform well on the longer-term horizon.

Despite the fact that we largely have an accounting match in the Netherlands, fair value hedging with an account match accounted to a loss of EUR101m. This was due to differences between Solvency II and IFRS on Aegon's interest rate hedges in the Netherlands. These losses represent less than 5% of the change in liabilities, which increased by EUR2.4b this quarter. Fair value hedging without an accounting match resulted in a loss of EUR152m, mostly as a result of our macro equity hedge program in the US.

Overall impairments remained low at EUR36m or 9 basis points of the general account on an annualized basis. These were mainly related to energy investments in the US.

Let me now turn to capital on slide 6, starting with our Group capital position. Our Solvency II ratio of 155% puts us at the mid point of our target range of 140% to 170%. The ratio declined this quarter as a result of market impacts and returning capital to our shareholders. Under Solvency II, capital return to shareholders is deducted from the ratio at the moment the management decision is made and not when it is paid.

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

Turning to slide 7. The Netherlands, we've made adjustments to our hedging program, which have an effect on both Solvency II and on an IFRS basis. During the first quarter we aligned our guarantee hedging program to the Solvency II curve. And given that there is now an accounting mismatch, we will revisit our IFRS fair valuation curve in the third quarter. Differences between our hedging program and the valuation of our liabilities lead to increased volatility in our IFRS results.

Staff pension plans, as measured by IAS 19, and second-order impacts under Solvency II both remain unhedged. We are in the process of updating our sensitivities.

On slide 8 you can see that in Q1 we once again generated strong sales in our deposit businesses. This quarter is the first time that we are reporting asset management separately. And we are understandably very pleased with this unit's continued strong sales. Increasing gross flows was mainly driven by the inclusion of flows from our partnership with La Banque Postale asset management in France and higher recognized growth supported in our Chinese joint venture [IFMC].

By leveraging our market-leading underwriting capabilities in mortgages for third party investors, we continued to generate strong net inflows in the Dutch mortgage fund. And this was the main driver behind the net asset management flows of over EUR1b.



Net deposits for retirement plans increased by 14% to \$5b, primarily due to the acquisition of Mercer's DC recordkeeping business. And net deposits were also supported by our efforts to retain assets in our pension business in the US.

In the first quarter of this year, our asset retention rate increased to 20%, and we aim to further increase asset retention by continuing to improve how we engage with plan participants before they retire and by helping them make the right decisions by providing them with relevant information. New life sales were down 11% as higher index universal life sales in the US were more than offset by lower sales in Asia and Poland following product changes. And this is also, in part, a reflection of a strategic shift to focus on fee-based businesses.

I would now like to briefly touch on the Department of Labor's fiduciary rule, which has obviously attracted a lot of attention over the last 12 months. On previous occasions, I discussed the proposal with you and highlighted our concern that the scope was very broad, that it was very complicated and that it could lead to unintended consequences. And we're pleased that they will engage with the industry and are pleased that the final rule has improved in many ways, although we still believe it is likely to have a negative effect on both lower and middle income earners' access to the advice they need.

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

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

Let me now turn to expense savings and give you an update on the progress we're making towards reducing our expenses by EUR200m by 2018. As mentioned at our Investor Day in January, our ambition is to create one Transamerica in the eyes of all customers, while at the same time increasing the overall efficiency of the organization. This quarter we have implemented the new US orientation structure within Transamerica and completed our voluntary separate incentive plan. These expense savings, together with other expense initiatives, will lead to \$40m of benefit as of the second half of the year. And this represents an important step towards achieving the \$150m target.

Cost savings in the Netherlands in other holdings will mainly come from a reduction of legacy systems, from reducing complexity and from streamlining processes. By 2018 we expect these programs to enable us to meet expenses savings target of EUR200m and we will continue to update you on the progress of our expense savings program going forward.

Let me now move to the last slide on the steps we took during the first quarter towards achieving our strategic objectives. First and foremost, we have almost completed the EUR400m share buyback we announced in January. And (inaudible) Aegon will participate in the second tranche of our share buyback program on a pro-rata basis in order to maintain the level of voting rights.

In January we also indicated that we were considering options for our UK annuity book. And as you know, we concluded that a sale was the best option. This resulted in the recent divestment of two-thirds of this portfolio. And we're aiming to divest the remaining third. In addition, we reached an agreement to acquire BlackRock's platform base defined contribution business in the UK. These transactions will enable us to fully focus on our fast-growing platform and serve the growing needs of our more than 2m customers in the UK.

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

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

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

### QUESTION AND ANSWER

---

#### Operator

(Operator Instructions). Ashik Musaddi, JPMorgan.



---

**Ashik Musaddi - JPMorgan - Analyst**

Yes. Hi. Good morning, Alex. Good morning, Darryl. Just a couple of questions from me. First of all, can you give us a bit of update on the UK business? It looks like your capital dropped from 140%, which should be 155% post the disposal of UK part business, and it's again back to 140%. What's going on there? And I still don't understand what's the point of -- at what point would you decide whether this is a business issue or not because it looks like it continues to remain a drag on your earnings or capital at some point every quarter. So that's first one.

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

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

---

**Darryl Button - Aegon NV - CFO**

Hi, Ashik. It's Darryl. Let me try and answer those questions for you. I'll take them in order. On the UK, the 155% to the 140%, the 155% was a pro-forma number at the end of the year, and I think we were clear on that in the press release when we put that out. It was early April at that time, but we didn't have our first-quarter Solvency II numbers at that point or any of the attributions. So we gave you the year-end numbers. And of course we had the sensitivities that were out there to help you understand how that ratio would move over time.

And in fact, the interest rate sensitivity was, as you can, is pretty large in the UK. And I think we had said that it was 17 points for 100-basis-point drop. The swap spreads or the swap rates dropped about 60 basis points in the UK over the quarter. And that has -- actually has a bit of a leveraging effect. Not only did the rates drop significantly but with swap rates dropping even further, you have a spread effect as well. So that made it a little bit larger than the sensitivity.

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

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

We've had some credit ratings downgrade, Finland in particular as an example which came in and impacted the numbers. And the interest rates, not so much from an ALM perspective; we continue to be very hedged in terms of own funds and the numerator from an interest rate perspective. But the impact on the SCR and the denominators, so this would be second-order impacts on credit risk, longevity risk, the risk margins. That is where the interest rate impact came from.

And really all of the items that I just mentioned impact the ratio today, but they have the unwind effect that we mentioned earlier as well. They unwind into the future into higher cash flows going forward. So I think that's important to note when you look at the Dutch capital ratio situation.

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

---

**Ashik Musaddi - JPMorgan - Analyst**

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

---

**Darryl Button - Aegon NV - CFO**



MAY 12, 2016 / 07:00AM GMT, AGN.AS - Q1 2016 Aegon NV Earnings Call

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

I think on the annuities, the only thing I would add to what you said was that keep in mind even though we've reinsured EUR6b or about 60% of the annuities, we did lose the transitional benefits on that first reinsurance tranche. So in terms of the actual impact on capital, there's still more to come as we look at the rest of the business that's there, as well as when we complete the Part VII transfer in roughly nine months' time or so.

---

**Ashik Musaddi - JPMorgan - Analyst**

All right. That's very good. Thank you.

---

**Darryl Button - Aegon NV - CFO**

Thanks.

---

**Operator**

Farooq Hanif, Citigroup.

---

**Farooq Hanif - Citigroup - Analyst**

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

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

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

---

**Darryl Button - Aegon NV - CFO**

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

So we're working on updating our sensitivities. But largely what I would say is that we are focused on applying our capital policy. The only thing I would add to that is what I mentioned to Ashik is keep in mind it's not just -- capital's not just about a point-in-time ratio. It's about a point-in-time ratio and the unwind of that ratio going forward. So we do look at elements when the ratio is -- and we've highlighted the ratio under Solvency II will have some volatility; it will float up and down. But when you have these second-order impacts that are going to unwind in the future, that's different than having what I would say loss permanent capital.

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

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



So what that does it that gets us to something that is much of or a, I would say, a sustainable interest rate or, sorry, sustainable earnings rate on where we are now. There is an impact to earnings if we continue to sell off -- as we continue to sell off the annuity business and that will bring the run rate earnings down going forward. I think we've given you some (inaudible) on that but we can follow up with that offline.

I think the third question on DoL?

---

**Alex Wynaendts - Aegon NV - CEO**

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

So the longer transition period helps us. We've actually started making our preparation for what we would expect the DoL rules to be as already of late last year. So we've been looking at our products. We've mainly been looking at the way we sell our products going forward.

So let me take you now through the three areas which I think are the most relevant. Number one is retirement plans. In fact, our business in the US is a fiduciary-friendly model with the open architecture. So in that sense we will probably benefit on a relative basis by the fact that our model has been not only focused in terms of how it's positioned in the market, but also in terms how it's been very much focused on having a very cost-efficient administration capability and does not require the added income from investment products. So that model actually is very well positioned.

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

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

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

And then finally, the third element which, by the way, is also at the heart of the strategy as you know, pension money rollover means that we will have to adjust to that new reality. And we believe therefore that our managed advice, which I've talked about many times already, as being a way of helping our customers, of helping our customers focusing on being prepared for retirement. And then once they are more prepared for retirement, to take the actions they need to be retired, that that managed advice function is going to be more relevant now, in particular as we do get through what we commonly call, I think, [robo] advice. But these are digitally enabled capabilities that effectively allows us to connect with our 5m plan participants in the US. So that strategy is going to support the direction.

What I see happening here is probably longer retention. That means that customers will stick to their assets in the 401K for longer periods. But ultimately they will also have to make the choices to convert that in the form of income.

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

---

**Farooq Hanif - Citigroup - Analyst**

Thank you very much.

---

**Operator**



MAY 12, 2016 / 07:00AM GMT, AGN.AS - Q1 2016 Aegon NV Earnings Call

Nadine van der Meulen, Morgan Stanley.

---

**Nadine van der Meulen - Morgan Stanley - Analyst**

Yes. Good morning, everyone. The HoldCo cash buffer I believe is around EUR1b. Can you give an indication of what the excess capital is in the US over the AA requirement? So that's the first question.

And the other question I had was at the Investor Day you guided to excess cash generation of -- I believe it was around EUR600m over a three-year time period. It was based on a EUR1b free cash generation expected over the year or over a typical year. The run rate that you show now this quarter, I suppose, is 0.2. So that's a bit lower. Can you comment on that expectation going forward? And I suppose that links in with Farooq's question around the EUR250m that can be upstreamed out of the Netherlands.

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

---

**Darryl Button - Aegon NV - CFO**

Okay, Nadine. I'll try to take those questions in order. On the US capital, we're not disclosing the S&P AA access any more. We've moved over to RBC ratios as our primary capital metric in the US, and I think that fits better into how it comes across into the Group Solvency II ratio. So what I can tell you is actually RBC ratios are up a little bit from last quarter. We're at 480 and that's up from 460, 465 I think it was last quarter.

On the excess cash generation, actually we're very much in line with the targets that we set out before. I think you quoted the EUR200m being down from the EUR300m. Actually that's a free cash flow number so that's after holding cost. So if you took that back to operational free cash flows, that's the EUR300m that we show on the opening in the presentation. That's very much in line. Obviously that's shown to one decimal point on the billions, but that's very much in line with the EUR325m expectation that we would get, which is the EUR1.3b that we're expecting for 2016. So I would say we're still very much on track there, certainly on a normalized cash generation basis.

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

---

**Nadine van der Meulen - Morgan Stanley - Analyst**

Thank you very much.

---

**Darryl Button - Aegon NV - CFO**

Yes.

---

**Operator**

Farquhar Murray, Autonomous.

---

**Farquhar Murray - Autonomous Research - Analyst**

Morning, gentlemen. Just one question from me actually. Most of them have actually been already dealt with. Just coming back to the operational free cash flow in the quarter, you're reporting that as a rounded EUR0.3b. I just wondered if you could actually just help me quantify that in millions, as in previous quarters, partly because actually if I look at slide, I think if I took that number of 2 percentage points, which I pressure post their holding cost, I'm looking at probably something more like EUR250m. So any -- just a little bit more detail would be helpful there. Thanks.





MAY 12, 2016 / 07:00AM GMT, AGN.AS - Q1 2016 Aegon NV Earnings Call

---

**Darryl Button - Aegon NV - CFO**

Yes. Farquhar, yes, I can help you out. We're showing it that way because these are balance sheet moves quarter to quarter, so we think a rounded approach is a better way to look at it. But the short answer is behind that is actually around EUR325m. That's about where we came in on the first quarter, so that is the more detailed number. But again, plus or minus EUR25m, EUR30m on that roll forward is an easy swing factor, if you will. But we are, this quarter, in around the EUR325m.

---

**Farquhar Murray - Autonomous Research - Analyst**

Okay. Super. Thanks very much.

---

**Darryl Button - Aegon NV - CFO**

Yes.

---

**Operator**

Gordon Aitken, RBC.

---

**Gordon Aitken - RBC Capital Markets - Analyst**

Yes. Moming. Thank you. First question on -- if you could talk about your Dutch DB experience in the first quarter. So what -- how many schemes are up for renewal? How many are continuing to go down the DB route for future accrual? How many are -- I know you're trying to switch to future accrual to hybrid or DC. What's the experience there? Are you losing any to competitors because people just won't take your prices? So that's the first question.

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

And the third question, on the US, on the DOL, you've said -- I see in this presumably you said no meaningful impact. In the text you actually said no impact on the back book. How can you be so sure that advisors won't revisit maybe even some recent sales? Thank you.

---

**Alex Wynaendts - Aegon NV - CEO**

Gordon, let me take the questions on the pension business in the Netherlands. As you know, interest rates do play an important role here. At this point in time there is very limited movement in the DB schemes, and what we see is that increasingly customers are looking for opportunities to move from DB to DC. So the DB environment now is effectively more or less inactive.

That's also one of the reasons that you will see that not only have we been building up our PPIs, our 41k, our (inaudible) defined contribution capability, but we're also going to launch our APF or APF, that new vehicle that is what we believe going to be a very good alternative for DB plans looking for a new home. And we are about to launch that and I think we're waiting for the final approvals where we needed to.

But it's good to know, and I can share this with you because I'm pleased to be able to do so. We've already EUR2.2b of commitments into that new APF vehicle, which we believe is going to be the alternative to the traditional DB schemes because effectively it's something of a scheme which is a bit of both, DB and DC, but a larger transition that is a bit smoother than moving from DB to DC.

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



MAY 12, 2016 / 07:00AM GMT, AGN.AS - Q1 2016 Aegon NV Earnings Call

Let me just try to answer your question on our -- the statement that we made on the back book that we do not believe that our back book was really going to be impacted. Well, what we see is -- most likely is going to happen is more like a paralysis from advisors, where they will first of all have to assess what the new position is, go back to the customer. So -- and that means that we will see rather less activity than we see more activity, and that is the reason why we believe also that our back book, as such, is not going to be very much impacted.

The rules, by the way, going forward, so it's really about the fiduciary rule, looking at sales going forward from the pension area.

---

**Darryl Button - Aegon NV - CFO**

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

---

**Gordon Aitken - RBC Capital Markets - Analyst**

Okay. Thank you.

---

**Alex Wynaendts - Aegon NV - CEO**

Just to put it in the context of the US and DOL, as we said earlier, the fact that we have done this merger acquisition, which is very -- by the way, very similar to what we're now doing with BlackRock, already generated close to [\$]2b of sales in the first quarter. And this is because it brings in new capability identical to what we just -- Darryl just shared on BlackRock to our US business because in the US we were most involved in the smaller and the SME schemes and now with the merger capability are also able to cover the whole market and cover the very big schemes, which bring us a lot of new [planned] participants. And that's at the heart of our strategy, not so much a focus on the scheme in itself, but to focus on the planned participants individually needing to find solutions for their retirement.

---

**Darryl Button - Aegon NV - CFO**

Yes. Next question, Operator.

---

**Operator**

William Hawkins, KBW.

---

**William Hawkins - Keefe, Bruyette & Woods - Analyst**

Hello. Thank you very much. Good morning. First of all, that slide 7 where you talk about reviewing the IFRS curve in the third quarter, can you just clarify? Presumably that is whether you move it to the Solvency II curve or not, so it's binary. And I'm afraid I'm no good on the maths on this. If you were to move to the Solvency II curve, what exactly would be -- or directionally, what would be the impact? Given that there's a change in the shape of the curve, I'm not even sure about the directional impact, positive or negative.

And then secondly, the US dividend, I think that's stated to be \$1b for this year, as a round number. How should I be thinking about that second quarter versus first quarter? I'm basically assuming 50/50, but obviously fourth quarter was low last year because you didn't need the cash. So I'm not sure about whether it's reasonable to assume 50/50 or if there could be some skew.

And then finally, I hope briefly, given the point you were making about the weakness of the VAs because of daily averaging, presumably it's the statement of the obvious, that the second quarter should be stronger as a result of that, if you could just confirm. And if we were starting at the -- where the markets have been in the first month, what would be the natural bounce-back of moving from the daily average to where we began the quarter? Thank you.



---

**Darryl Button - Aegon NV - CFO**

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

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

US dividends, yes, 50/50 is a good expectation. And the \$1b dividend for the year, 50/50 first half, second half is a good number to work with.

And then finally, on the daily averaging, yes, you are -- your math is right. We ended the quarter higher and so we enter into Q2 at higher balances as long as we don't have a similar dip effect. We will at least earn back the earnings drag that came from the decline, if you will, throughout the quarter. That's going to be -- it varies by product line. Most of the dip was on the variable annuities, also some of the pension and the mutual fund in the business. In total, be around EUR20m or so, would be a high-level number I would put on that.

---

**William Hawkins - Keefe, Bruyette & Woods - Analyst**

That's very helpful. Thank you.

---

**Darryl Button - Aegon NV - CFO**

Yes.

---

**Operator**

Mark Cathcart, Jefferies.

---

**Mark Cathcart - Jefferies - Analyst**

Yes. Hi. It's Mark Cathcart from Jefferies. I've got three questions for Darryl. The first one is, if at the January Investor Day you'd have been presented with the financial market evolution that then happened between that data and March 31, would you have been able to predict the Dutch solvency ratio at 135% or would it have been better than that on your analysis, what you knew at that stage in time on your sensitivities?

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

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

---

**Darryl Button - Aegon NV - CFO**

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

---

**Mark Cathcart - Jefferies - Analyst**

Okay.



---

**Darryl Button - Aegon NV - CFO**

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

---

**Mark Cathcart - Jefferies - Analyst**

Yes. Okay. So the question how many -- in how many countries are you generating your cost of capital above in those 22 countries?

---

**Darryl Button - Aegon NV - CFO**

Okay. Okay, let me go back to the first question in terms of the Dutch capital position. How much of this (multiple speakers).

---

**Mark Cathcart - Jefferies - Analyst**

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

---

**Darryl Button - Aegon NV - CFO**

Yes. I think -- and of course in January we never know where the Dutch mortgage spreads are going to end and some of the cross impacts you get into. So the Dutch mortgage spreads are wider and I would say we're (multiple speakers).

---

**Mark Cathcart - Jefferies - Analyst**

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

---

**Darryl Button - Aegon NV - CFO**

Yes. I guess it's a difficult question to answer. I think, largely, if I knew everything that I know now, in hindsight, could I have gotten to the right number? I think the answer to that question is yes. (Multiple speakers).

---

**Mark Cathcart - Jefferies - Analyst**

But your sensitivities performed as you expected them to.

---

**Darryl Button - Aegon NV - CFO**

Yes. Well, I will say we are updating the sensitivities for some of the hedge program changes that were made throughout the quarter, so we are going to and I am flagging here that the Dutch interest rate sensitivity will be higher than what we have on those sensitivities. And that I think is clearly laid out in the presentation. I think there are impacts to the capital ratio that you cannot capture in the sensitivities themselves. So when you get into some of the credit downgrades and migration, those aren't easily captured in the sensitivities that we provided.

Where I was going when I started to answer the question was that dropping of interest rates has an impact on mortgage spreads if the consumer rates don't follow because of our methodology that we've landed on and how we compute the fair value of a Dutch mortgage. So there's cross-term impacts there. So there are a lot of cross-term impacts that is difficult to put on a single page of sensitivities, which is what we shared you in January.



MAY 12, 2016 / 07:00AM GMT, AGN.AS - Q1 2016 Aegon NV Earnings Call

So a broad answer is yes, in perfect hindsight we would have gotten to the same number, but is all of that captured on the sensitivities that you have on a single page? No because there are some cross-term elements that have gone against us. There's basis risks that's gone against us in this quarter.

So that's -- I don't know if that's answering your question or not, Mark, but I think that's (multiple speakers).

---

**Mark Cathcart - Jefferies - Analyst**

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

---

**Darryl Button - Aegon NV - CFO**

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

---

**Mark Cathcart - Jefferies - Analyst**

So if your Solvency II ratio did go below 135% by, say, the end of Q3, it was at 128% or 132%, would you still upstream that EUR250m of cash? I presume not.

---

**Darryl Button - Aegon NV - CFO**

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

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

---

**Mark Cathcart - Jefferies - Analyst**

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

---

**Darryl Button - Aegon NV - CFO**

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

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

The last question, I don't have an exact number on the -- I have to go back and add up whether the 22 is right or not, but --

---

**Mark Cathcart - Jefferies - Analyst**



MAY 12, 2016 / 07:00AM GMT, AGN.AS - Q1 2016 Aegon NV Earnings Call

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

---

**Darryl Button - Aegon NV - CFO**

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

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

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

So there is a mixed story, but for very good reasons across each of those different geographies.

---

**Mark Cathcart - Jefferies - Analyst**

I'm sure the reasons are good, but other companies have (technical difficulty) non-core periphery operations. And I just wonder if Aegon might go down that path.

---

**Darryl Button - Aegon NV - CFO**

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

---

**Mark Cathcart - Jefferies - Analyst**

Thanks.

---

**Operator**

Matthias de Wit, KBC Securities.

---

**Matthias de Wit - KBC Securities - Analyst**

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

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

And then the last question is on the US capital position. Is there anything you could share on how much of the quarter-on-quarter increase in RBC was driven by the drop in interest rates? Because this -- to me that looks like a non-economic gain to the capital position, and I just wonder how much of that you could remit to the (inaudible) form of dividends going forward. Thank you.



---

**Darryl Button - Aegon NV - CFO**

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

And then on the US capital position, on the RBC ratio, I don't have an exact number on how much it was benefited from the interest rates. There was some modest uptick because what happens in the US is the derivatives that we have to protect against low interest rates generate statutory earnings in the US and that has a positive inflation to the ratio. But in terms of the contribution into the dividends, the reality is we are really in a strong excess capital position in the US and definitely in dividend-paying mode. So even despite that uptick, which is non-economic, as you say, which is probably a fair statement, it doesn't change the dividend outlook from the US given where our capital ratios are and where our cash generation out of the US is coming from.

The DOL?

---

**Alex Wynaendts - Aegon NV - CEO**

On the DOL, Matthias, I just would like to add that the implementation is for certain parts of the rule April 2017; in other parts of the rule, the end of 2017. So that gives us quite some transition, which I referred to earlier. Now in terms of expenses, additional, not expenses, the only answer I want to give you is that we have made a clear commitment to reduce expenses by EUR150 by 2018 and we stick to that.

---

**Matthias de Wit - KBC Securities - Analyst**

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

---

**Darryl Button - Aegon NV - CFO**

Yes. It's actually a two-part answer, and thanks for the question. It -- we are still working with the Dutch central bank to get internal model approval for our longevity risk-based capital. That was one of the day-two items that we put on the list for this year. So there still are some opportunities that we have in terms of expanding scope of our internal model. We had de-scoped it last year just because of all of the work and the timelines.

So there are still some scope expansions to our internal model that we're working on for this year. That will allow us to take credit for some of the longevity transactions that we've already done that we haven't got full credit for.

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

---

**Matthias de Wit - KBC Securities - Analyst**

Okay. Thanks a lot.

---

**Operator**

Bart Horsten, Kempen & Co.

---

**Bart Horsten - Kempen & Co - Analyst**

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



My second question, regards the holding cash position, could you remind me on the target level you have there? And in the press release it also said that there was a capital contribution to the operations of EUR100m. Could you tell us which activities that related to? And will the holding cash position going forward also still be impacted, for instance, by a purchase price you paid for the BlackRock activities?

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

---

**Darryl Button - Aegon NV - CFO**

Hi Bart. It's Darryl. Let me try to hit those questions. On the -- on our -- no. The way I would answer your NL capital injection question is the way I answered the dividend question earlier, which is we'll apply our capital policy in the Netherlands. We're still in the green zone of our EUR130m to EUR150m target zone for our subsidiary levels, albeit it at the lower end now. We do have to work to go back and check our sensitivities and make sure that those are the appropriate ranges for us to continue to run in, but at this point I'm certainly not foreseeing any capital injection into the Netherlands business. So I guess I would just say it that way.

On your second question, if I captured it all correctly, it was holding related. We do target EUR1b to EUR1.5b. That's our stated target for excess capital in the holding. We're at EUR1b now. In terms of the movement in the quarter, there was about EUR100m total, a little less than that that went into units. They were really small increments that went in, in several different places to a couple of our joint ventures in Asia and a small amount into our unit in Spain for our expansion into Portugal and a little bit into Ireland, where we are selling the guarantee product, the guaranteed VA product. So it was a little bit across four different regions, which added up I think to a total of about EUR80m, rounded to the EUR100m on the slide.

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

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

---

**Bart Horsten - Kempen & Co - Analyst**

Okay. Thank you.

---

**Darryl Button - Aegon NV - CFO**

Yes.

---

**Operator**

Nick Holmes, Societe Generale.

---

**Nick Holmes - Societe Generale - Analyst**

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

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

---

**Alex Wynaendts - Aegon NV - CEO**





MAY 12, 2016 / 07:00AM GMT, AGN.AS - Q1 2016 Aegon NV Earnings Call

Nick, as I said, I don't believe that we'll see a boost in sales. You're probably referring to the final sales before the rules change. No, I believe on the contrary. Most people would just wait. I see more something like a paralysis in how advisors are going to behave. They certainly would not want to take an action that then can be seen as not being in line with the to-be-implemented rule. So I'm certainly not seeing that.

---

**Nick Holmes - Societe Generale - Analyst**

Okay.

---

**Darryl Button - Aegon NV - CFO**

On the second question, how do we feel about flat equity markets on the VA portfolio? I think we feel quite okay. The reality is we have hedge programs in place. We have really 100% of the equity delta exposure hedged on all of our VA business. And so from a guarantee/risk perspective, we're really agnostic to movements in equity markets as it relates to the VA business.

From a -- we are -- we do have some revenue at risk, if you will, in terms of -- and you saw some signs of that this quarter as the equity markets went up and down. You have a little bit of -- more of that mutual fund revenue that fluctuates. But in the scenario you described as a flat equity market, that wouldn't be an issue in that scenario. So I don't really see it as an issue.

In terms of the net amount at risk, yes, we -- total net amount at risk for the book is around EUR3.8b. So I think I agree with your comments. It's not the -- it's certainly not the largest that's out there.

---

**Nick Holmes - Societe Generale - Analyst**

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

---

**Darryl Button - Aegon NV - CFO**

Yes.

---

**Alex Wynaendts - Aegon NV - CEO**

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

---

**Operator**

This concludes today's call. Thank you for your participation. You may not all disconnect.



## DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2016 Thomson Reuters. All Rights Reserved.

