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PRESENTATION

Operator

Ladies and gentlemen, thank you for holding. Welcome to the Aegon second quarter 2013 results conference call for analysts and investors on Thursday, August 8, 2013. Throughout today's presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions). I will now hand the conference over to Mr. Alex Wynaendts. Please go ahead sir.

Alex Wynaendts - Aegon NV - CEO

Good morning, everyone. We appreciate that you join us today for this call on Aegon's second quarter 2013 results. And with me are Darryl Button our CFO and he'll take you through units later and then in the presentation, and he will review how are financial results for the quarter. Also present Willem van den Berg, Head of Investors Relations. And as always we welcome your questions after the presentation and, of course please take a moment to review our disclaimer on forward-looking statements.

Across our organization we are executing on the strategic priorities we have identified as essential to our growth and long-term success. And this quarter's strong earnings as well as our continued financial strength provide clear evidence that our strategy is delivering the expected results.

Continued sales momentum this quarter, particularly in our accumulation and At-Retirement products and a significant increase in the market consistent value of new business, confirm the strength of our distribution capabilities and that we continue to sell the right products to the right customers and at the right price. Our strong performance enables us to increase our interim dividend to EUR0.11 per share and this is a clear sign of our confidence in the business.

Let me now start by giving you some more detail on the sales growth we've experienced this quarter. As you can see here on slide three, our growth is driven by strong increase in new life sales and most notably in the Netherlands and the UK. And in the Netherlands there was increased demand for our pension products.

In the UK, group pension sales were strong and deposits on our new platform continue to accelerate. We are particularly pleased with the level of gross deposits for EUR13b for the quarter; variable annuity deposits increased 73% to \$2.3b driven by a broad distribution network and more rational pricing in the market. In the next slides I will cover our fee business in the US in more detail.



Asset management also continued to show a very healthy contribution with deposits of EUR5.5b and as highlighted during recent investor conference is of increasing importance to our organization. Accident, health and general insurance however was 7% lower as some less profitable partnerships were ended in the US.

So overall we continue to experience strong customer demand for our core products and services. A clear reflection of the strength of our franchise, depth of our distribution and our focus on innovation and let me elaborate further on this on the next slide.

I'm turning to slide four. Our growth is driven by management actions we're taking across our businesses to enhance our market proposition and customer loyalty. Expanding into new distribution channels whilst strengthening existing relationships continues to be a priority and it's clearly showing results. This quarter we again added new distribution agreements with a number of leading distributors.

In the Americas, we've entered -- we've partnered with leading brokerage firm, Edward Jones, to distribute variable annuity products broadening the scale and further improving the quality of our distribution network by adding over 12,000 financial advisors. In the UK, we have been selected by Mercer as one of their three providers in the large defined contribution space and we've been selected as their sole provider in the SME segment.

And also in Spain, we've now started selling products through our new joint venture with Banco Santander. Leveraging technology is enabling us to become more cost efficient while at the same time improving customer service. And the efficiency of the retirement solutions platform in the US, for example, enabled us to maintain our margin this quarter in what remains a competitive environment. And in the UK we'll soon introduce our platform to the non-advise market.

Another proof point of the execution of our strategy is the successful transition of our individual sales and retirement unit in the US from spread-based to fee-generating business. And as you can see on slide five, the increase in earnings from variable annuities and retail mutual funds now outweighs the decrease in earnings from fixed annuities which we had been de-emphasizing since 2010 in line with our strategic repositioning in the US.

Our variable annuities sales increased by 73%, continuing the very positive sales momentum that we've experienced in recent quarters. And as I mentioned earlier we are benefiting from our strong and expanding distribution network. This quarter 44% of our variable annuity sales went into funds managed by Aegon Asset Management. And our retail mutual fund sales also performed well with an increase of 51%. And again importantly of these products sold, 60% is now managed by Aegon Asset Management.

And let me now turn to markets and value of new business for the quarter. Turning to slide six and as you're well aware the core focus for our business is selling products that provide value to our customers and to the Company and this is clearly reflected in the significant increase in the market consistent value of new business we achieved this quarter.

In the Americas, the value of new business doubled. A key driver was variable annuities which benefitted from stronger sales and higher margins. And the improvement in the US life business is the result of active re-pricing and the withdrawal of products that did not meet our profitability hurdle.

In the Netherlands, the market consistent value of new business increased in this quarter on a solid contribution from mortgages and as a result of the increase in pension production. And as the slide indicates, the market consistent value of new business in the UK was stable as lower pension margins were offset by higher sales volumes.

And in our new markets, the divestment in Spain offset the strong contribution from Asia and we expect Spain's contribution to the MCVNB to increase now that our partnership with Banco Santander has started.

We have previously shared with you the steps we are taking in the UK to respond competitively in the post RDR environment by restructuring our business and operating on a more efficient basis. And here on slide seven I would like to highlight some clear signs of success.



The Aegon retirement choice platform is now firmly contributing to sales generated in the UK. Our 45% increase in sales is due to platform sales, auto-enrollment and strong Group pension sales. We also see considerable potential in our latest distribution agreement with Mercer. This is a key win for our platform as Mercer has a market share of approximately 12.5% of the large corporate market.

And we are transforming our business in the UK to become a leading platform provider. Further steps taken this quarter to transform our business include the sale of our distribution business, Positive Solutions, as well as the closure of six regional sales centers.

So Darryl will now talk you through our earnings and financial position. Darryl.

Darryl Button - *Aegon NV - CFO*

Thank you, Alex. Here on slide eight I would like to take a closer look at underlying earnings, which I'm pleased to say rose by 5%. In the Americas higher earnings driven by our pensions and variable annuities were partly offset by higher sales-related expenses following strong sales growth. Underlying earnings in the Netherlands were stable at EUR74m. Non-Life earnings however were disappointing as improved earnings from disability were offset by higher claims in general insurance.

In the UK, underlying earnings increased 4% as favorable equity markets, improved mortality and favorable claims experience were partly offset by continued impact of adverse persistency. Underlying earnings from new markets were down at EUR52m. Earnings from asset management were up despite the sale of Prisma last year, but were more than offset by lower underlying earnings as a result of our divestments in Spain, unfavorable claim experience in Central and Eastern Europe. Total holding costs decreased to EUR35m mainly the result of lower interest expenses following debt redemptions and reduced operating expenses.

Here on slide nine you can see that in the second quarter net income was negatively impacted by fair value items which I will address further on the next slide. Impairments were up modestly compared to last year and were largely related to structured assets in the Americas, a corporate bond in the UK and residential mortgage loans in the Netherlands.

Other income amounted to EUR27m as the gain on a sale of the joint venture with Unnim was offset by charges in the UK related to business transformation costs, a loss on the divestment of Positive Solutions and a provision in the Netherlands following the KoersPlan verdict. The results of run-off businesses increased to EUR13m mainly due to improved results in the life re-insurance business in the Americas.

Slide 10 provides more details on our fair value items which totaled a loss of EUR270m. These fair value items can be broken down into four categories. The first category is investments which are carried at fair value. Long-term we expect this item to be zero and in the current quarter we did see underperformance coming from all asset classes in both the US and the Netherlands.

Next, we have our fair value hedging programs where we largely have an accounting match with one notable exception being the required use of our own credit spread in the valuation of the liabilities. We also expect this category to average zero over the long-term, but of course some period-to-period volatility will still occur.

The third category is the fair value hedging where there is not an accounting match. We have discussed extensively the largest of these programs, the US GMIB delta macro hedge and the more recently added equity collar hedge. In addition to these hedges, we also have a hedge program covering the death benefits of our GMWB product that is included in this category due to its accounting treatment.

In addition we have other extreme event hedges including protection against rapidly rising interest rates that provided some offset to the loss during the period. Furthermore, at the holding there was an impact of EUR32m related to interest rate swaps backing our hybrid capital securities.

The fourth category contains various items such as medium-term notes at the holding, which are impacted by credit spread movements, foreign currency exchange movements and the impact of rising interest rates on the longevity swap.



We continue to focus on cost efficiency. As shown on slide 11, our operating expenses have increased this year compared to the first half of 2012. The primary reason for this increase is twofold; higher sales related expenses as our US business is rapidly growing and business transformation costs in the UK. Excluding the transformation costs our operating expenses rose 3%.

In the Netherlands, expenses were lower due to the successful implementation of cost reductions. And in our new markets, expenses are mainly higher due to the Hungarian insurance tax and the first-time inclusion of our new business in the Ukraine. Reducing costs and pursuing operational efficiencies continue to be a key priority for the Company and an integral part of how we manage our day-to-day business.

I'm pleased with the level of operational free cash flows as shown here on slide 12. Operational free cash flows for the quarter totaled EUR674m including EUR308m of positive market impact and one-time items of which the majority was driven by the sharp increase in interest rates.

Turning now to Aegon's capital position at the end of the second quarter here on slide 13, our Group IGD ratio decreased slightly to 220% due mostly to the impact of the final 2012 dividend paid in June and the cash used for the preferred share transaction. As I highlighted during our recent analyst and investor conference a few weeks ago, we manage the capital of our operating units based on clear local target and buffer levels as shown in the graphs.

SMP excess capital in the Americas decreased by \$100m as the impact of the mid-year dividend paid to the holding was offset by earnings in the quarter and the benefit of higher interest rates. The IGD ratio in the Netherlands excluding the bank and the ultimate forward rate increased to 235%. And including the bank and the UFR the ratio was 270%. This was driven by earnings and the benefit of yield curve changes.

We use the ECB AAA curve to discount liabilities for solvency purposes at the end of the second quarter. And as you know, as of mid-July, France is no longer included in this curve. The industry is currently working with the DMB to clarify what the right methodology should be going forward. The impact of the downgrade of France is approximately 35 percentage points on our regulatory solvency ratio of 270% which includes the bank and the UFR. We are comfortable that the capital position of our Dutch business will remain above our self-imposed target level.

In the UK, the Pillar 1 ratio increased to 170% including the capital support from the parent, as the negative impact of downgrades and impairments was offset by the benefit of higher interest rates.

Excess capital in the holding increased to EUR1.9b as you can see on slide 14. Dividends from our business units and proceeds from the exit of our joint venture with Unnim more than compensated for the cash used for the preferred share transaction, dividends to our shareholders, the investment in our new joint venture with Banco Santander as well as funding and operating expenses. Financial leverage improved to 30.5% following the redemption of a bond that matured during the quarter.

Slide 15, our strong capital position and operating free cash flows enable us to increase the interim dividend to EUR0.11 per share, a clear sign of our confidence. We will continue to allow investors to choose between receiving the dividend in cash or stock. And as I indicated in June we will neutralize the interim stock dividend.

Back to Alex to wrap it up.

Alex Wynaendts - Aegon NV - CEO

Thank you, Darryl, and before taking your questions let me reiterate. We continue to execute on our strategic priorities and our second-quarter results provide clear evidence they are the right ones. We have achieved strong profitable sales of our core products. We generated solid underlying earnings with a continued strong capital position which enabled us to increase our interim dividends to EUR0.11 per share.

As always, we value your continued interest in Aegon and in what we're doing to generate long-term value for our stakeholders and our customers, business partners and of course our shareholders. With this we're happy now to take your questions.



QUESTIONS AND ANSWERS

Operator

Thank you, sir. (Operator Instructions). The first question is from David Andrich from Morgan Stanley. Please go ahead.

David Andrich - Morgan Stanley - Analyst

Hi, good morning. My first question is on the Dutch IGD ratio. I was just wondering in terms of the impact on the Dutch IGD ratio, excluding the bank and the excluding the UFR, what is it in terms of the French downgrade impact? I know you said for the IGD ratio including the UFR and the bank it was 35%. I was just wondering if you could share with us what the impact was excluding.

And then second one, in terms of your operational free cash flow it seems you're running quite high and I was just wondering if you could give a bit more color on how that might develop over the rest of the year. Thank you.

Alex Wynaendts - Aegon NV - CEO

Well, I'll pass the question on the impact on the IGD ratio to Darryl, but before saying that I think what's important to realize is that we are as an industry now in discussion with the regulator to assess what the way forward is. It's clear that it will have an impact if the only thing is the exclusion of France out of that curve, so that's why we've been focusing on these discussions and we've provided you the numbers, including the bank and UFR because we believe that is the most relevant comparison to take.

Darryl, is there anything else you want to add to this?

Darryl Button - Aegon NV - CFO

Yes, well, that's absolutely right, so we're in conversations with the DMB around how to treat this going forward. The impact excluding the UFR and excluding the bank is a little bit larger it's closer to 50 points. And as Alex said we're going to -- we're in conversation right now in terms of how to move forward with this and we'll have a look at our capital policy when we get more clarity in the third quarter.

David Andrich - Morgan Stanley - Analyst

Okay, sorry, if I could just follow up on that. In terms of the 200% target that you guys have set excluding the bank, excluding UFR, how self-imposed is that versus what the regulator would like you to hold?

Darryl Button - Aegon NV - CFO

Yes, David, well, it is a self-imposed target but it is our capital policy that we put forward. As I mentioned in June there is Solvency 1.5 that's coming in at the end of the year, which is a whole recalibration of all of the capitalization levels here in Holland. So we'll take our own target combined with what curve we end up with, combined with whether or not to include the UFR or not UFR all into account as we go into these conversations.

So I'm fairly optimistic that there is not going to be a significant impact to the capitalization level in Holland, how we think about that and how we think about our ability to upstream dividends out of the holding, which is really what this is related to and what the overall Solvency 1.5 initiative is related to.



Alex Wynaendts - Aegon NV - CEO

And obviously as soon as we get more clarity we will share with you and also share with you what the impact will be. But I think that we have to take into account it will take a bit longer than we all hoped. That probably has to do with something with the holiday season.

David Andrich - Morgan Stanley - Analyst

Thank you.

Alex Wynaendts - Aegon NV - CEO

Second, question on the operational free cash flow, what was exactly the question?

David Andrich - Morgan Stanley - Analyst

Just it seems like operational free cash flow is running ahead of what you guys kind of put forward as your targets in the past. So I was just wondering if maybe there is -- I know you've given some one-offs that are kind of driving it and market movements, etc. But I was just wondering how you might see that developing for the rest of the year.

Darryl Button - Aegon NV - CFO

Yes, David, this quarter was overly strong and it was related to interest rates had an impact, a favorable impact in both the Netherlands and the US. When you take and you strip that away we saw operational free cash flows right in line with what we were expecting and I see that continuing into the third and fourth quarter.

David Andrich - Morgan Stanley - Analyst

Yes, okay.

Alex Wynaendts - Aegon NV - CEO

And it's very much a focus of how we're running our business. We try to take our costs down; we try to sell more efficient, capital efficient products. So we see actually markets improving, more demand from our customers. So the trend is effectively to a further improvement in these operating cash flows, it's also very much a focus on how we're running the business and how each of our operating units is not only running the business but also is being incentivized.

David Andrich - Morgan Stanley - Analyst

Great. Thank you very much.

Operator

Thank you. The next question is from Farooq Hanif from Citigroup. Please go ahead.



Farooq Hanif - Citigroup - Analyst

Hi, everybody, thanks for taking my questions. Just want to ask two numbers questions and then one on the Mercer deal UK. Just following up on David's question, in Q3 is there any market impact that you can highlight that we should be taking into account so far?

Second number question is there have been loads of one-offs in your underlying earnings as usual. Net-net are they sort of netting off? What can you give us as a sort of guide to run rate?

And last, perhaps slightly more interesting question, the Mercer deal in the UK sounds quite big. Mercer's obviously a very big distributor and consultant in the UK. Can you tell us when you think you expect to start to see volumes coming through and what kind of size you could see, what is the feel? Thank you.

Alex Wynaendts - Aegon NV - CEO

Yes, maybe I should start with the Mercer deal which as you said, Farooq, is the most interesting question. Let me share with you that I'm really excited by the fact that we have been selected on a panel of three, effectively replacing another provider. So we have shown here I think at the market, that our restructuring, taking our costs down, but more importantly being well positioned and strongly positioned in the employee benefit market is working.

Mercer has around 12.5%, as you know, 12.5% market share. We'll be one of three in the large case -- space and we are the sole provider in -- we are the sole provider in the smaller SME segments. These are segments where the SME in particular is a segment where we have traditionally been very well represented, that's been the heartland as we used to call that of Aegon UK. But the large case area where we're now selected one of the three is for us a very new part of the business. So I think that's going to give a lot of traction in terms of sales, but also as you can imagine it gives a lot of confidence to our organization in the UK, but also to us clearly and hopefully to you that we are clearly on the right track in the UK.

In terms of the earnings, I think by and large you can say that some pluses and minuses are more or less offsetting each other. So it's a relatively clean quarter, but, Darryl, is there anything you want to add on this?

Darryl Button - Aegon NV - CFO

Yes, Farooq, I think your first question was on Q3 in terms of market impacts. Obviously I can't predict where the third quarter's going to land by the time we get there. What we can say and what we have said and what you can see in this quarter is that sharply rising interest rates which are behind us in the second quarter that did produce some additional fair value hedging losses which I've tried to highlight in the presentation.

In terms of equity markets, equity markets continue to be robust certainly in the US so far in the third quarter. We -- that impacts the collar hedge that we talked about last quarter. That collar hedge is due to expire at the end of this year and -- so I would just note that there's another quarter or two of additional hedging losses that could come off of that in higher equity market scenarios. Obviously, that goes the other way if the markets were down or if interest rates were to come back down. Some of the interest-rate-related losses would come the other way.

In terms of the one-offs, yes, I would just reiterate what Alex said in terms of -- out of the ones that we tried to highlight, it was a relatively clean quarter, a strong quarter coming out of the US, certainly, a little bit of a disappointment in the nonlife numbers in the Netherlands.

Alex Wynaendts - Aegon NV - CEO

But, Farooq, I think in general what I would like to say is that we put these hedges in place, as you know, to protect our capital position, so that's very consistent with our strategy, and it's important for us that we continue to do so. I'm glad to see that we're not the only one in the market that is putting in place hedges. I think it's the way going forward.



But what I would really like to point out is that higher equity markets, higher interest rates, is just good for us, is good for our customers, and is going to be reflected, and it actually is already reflected, in improvement in underlying earnings. So what you see a little bit is a bit of disconnect in terms of timing. We had one-off mark to market that you had to take at the end of the second quarter, but the benefits of higher equity markets, but also obviously higher interest rates, are going to continue for a long time in the future. And that, obviously, is less visible, but that it still there.

So we are actually very pleased with the developments of the market, even though that does show from an accounting point of view in the second quarter a negative impact of fair values.

Farooq Hanif - *Citigroup - Analyst*

If I may just come back, my question on the -- that's very useful information you've provided, but the question on the market value is more on the cash flow. In the third quarter, should we just be looking at interest rate as the driver?

Darryl Button - *Aegon NV - CFO*

Yes, I think so. I think you can be looking at a normalized -- again, the reason we were off normalized in the second quarter was the really sharp increase in interest rates. We're fairly well neutral from an equity market perspective now, so I think that that's a fair assumption, yes.

Farooq Hanif - *Citigroup - Analyst*

All right, thank you very much.

Operator

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

William Hawkins - *KBW - Analyst*

Hello. Thank you very much. Could you talk to me a bit about what's happening to the reinvestment yield in the US, particularly with regards to life and pensions? Presumably, it's gone up, but obviously you're still flagging that it was a drag in the second quarter versus previous periods. So if you can comment on that and also tell us where you're sitting versus your assumptions for where that's going in the future to support your current DAC.

And then, secondly, can you just expand again on what's going on in the UK pensions results? I'm a little bit confused about why the issue of the back book running off should be something that's worth flagging in the second quarter, rather than just something that's been structurally there all along. And so, again, if you can just tell us a bit about what's going on there and what that may mean, again, for persistency and other accounting assumptions in the future. Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Thank you, William. On the reinvestment yield, yes, we have given I think clear guidance as to the reinvestment yield the second quarter. Rates have actually started to increase in the second part of the second quarter, so the positive effect of the reinvestment here will be probably more visible in the following quarters, but, Darryl, you have the exact numbers, right?



Darryl Button - *Aegon NV - CFO*

Yes. Reinvestment yields in the quarter were about 3.25%, and if you look right now, what we're getting, we're getting somewhere between -- I would just say in the low 4s right now, probably around 4.25% range. Obviously, that's improved a lot, just in the last 90 days.

The book yields and the portfolio obviously are still in excess of that, a little under 5%, so in the high 4s, so there's still a depletion in yield, if you will, from reinvestment activity, but not nearly as severe as it used to be.

Alex Wynaendts - *Aegon NV - CEO*

Yes, and in the UK, the impact of persistency, effectively, what we have seen and we flagged that earlier, that there has been a lot of sales which were concluded at the end or just before the end of the year 2012, because that was still allowing the payment of commissions. So what you see is that now we're processing a lot of these transactions, and that means that we have seen higher sales in our business, but equally, we have also lost business over a longer period of time, because it's taken more time to process that business, and we thought that we would have had it all done by the second quarter.

What now we see is that it is clearly coming down in the corporate pension area, so the effect of effectively cleaning up the backlog because of the high volumes just prior to ending the commissions, the payments, is taking a bit longer. So we expect that Q3 will see an improvement in persistency, and hopefully by Q4, the effect of the change into the RDR will have disappeared, and then you will be in a more normal market environment. So that's where we are today. It's taking me a bit longer than we expected, originally.

William Hawkins - *KBW - Analyst*

And if I may come back on the US question, I'm guessing I know the answer to this, but on a forward-looking basis, are you comfortable that you're now back on track for what's still a pretty hefty acceleration in reinvestment yields for the future? Or are you going to be more of the mind that even after the spike you may still be beneath what you've been assuming medium term?

Darryl Button - *Aegon NV - CFO*

Well, William, our long-term assumption, as you know, is a 10-year treasury of 4.75%, and so we have reinvestment spread over and above that, so we are assuming that we're getting something in excess of where we are now. There's no question about that. And our long-term assumptions still remain above -- even after this rise in interest rate, they remain above reinvestment rates currently and remain above forward rate, so it's an assumption. It's a key assumption for us, and as I said in June, we're going to take a hard look at our assumptions in the third quarter.

William Hawkins - *KBW - Analyst*

Great. Thank you.

Operator

Thank you. The next question is from Maarten Altena from Mediobanca. Please go ahead.

Maarten Altena - *Mediobanca - Analyst*

Good morning, gentlemen. Three questions from my side. The first is also on France and looking at the impact from the downgrade from the AAA ECB curve, taking into account the worst scenario. Would the impact on solvency change your strategy in terms of, for instance, cash flows upstreaming through the holding or else?



The second one is on the mis-selling, as you took a charge of EUR25m to settle the court ruling on Koersplan, and you mentioned in the press the productivity approach you remain in policyholders. What should we expect stemming from this approach, and when will this materialize? And, more importantly, after this, can we say the mis-selling book is closed, or is there more to be expected?

And the last one is on the realized gains, which were higher than expected. Would you be able to share whether you have accelerated the gains on the back of the favorable interest environment, and what can we expect going forward? Thanks.

Alex Wynaendts - *Aegon NV - CEO*

So, Maarten, on France, I think as Darryl has been very clear that we are as an industry in discussions, and also very clear about the level of comfort on a capital position. So there are many different options that could be explored, and you want to give a bit of color to that, Darryl?

Darryl Button - *Aegon NV - CFO*

Yes, just the only thing I would add is that clearly this is conversations we're having in the third quarter, so we'll be back in the third quarter with more clarity on this issue. I would just remind everyone that our targets that we put forward in June, they were our self-imposed targets, and they were based on conversations that we've had with the regulator and based on a certain assumption around the curve, underneath it. Now, to the extent that that curve changes, then we'll be back revisiting our assumptions, and I would just remind everyone that the UFR actually is -- has been passed and is the legal requirement, so that enters into the equation as we come back and look at possible curves.

In the Dutch regulation, we always have the ability to go to the swap curve, should we choose to do so, so that's all going to enter into our dialogue here in the third quarter, and I'll be back with some clarity on this subject. I would just reiterate, we're fairly confident this is not going to have an impact on our upstreaming or cash-flow dividend capabilities out of our Dutch operations.

Alex Wynaendts - *Aegon NV - CEO*

Yes, I think that's the key point, and on Koersplan, you're asking me two questions. I think one I can give you a clear answer and the other one I wish I would be able to give you an answer. And so what we have said now, we will clearly execute the verdict of the court, and the impact has been assessed now EUR25m for those policyholders who are part of this class action. Also, I would like to say to you that we actually started our first discussions with them last week, because we have to establish who these customers are. We have to establish if our records confirm their records, so this has only just started.

Now, in terms of what it means for the rest and where this whole about mis-selling is going to stop or to end, I think it's very difficult to say. What we have committed, as you pointed out, we said that we would provide insights to our other Koersplan customers -- in other words, those that are not part of this class action, provide them insight as to the level of premium they are being charged, and we will show what the premiums for similar products have been charged by other companies at that point in time. So that's step two.

And, obviously, if there is a reason to make any adjustments because the levels of premiums which we have charged are not reasonably in line with what would have been charged by the market, then we'll probably consider what action we need to take. But that's going to take a bit more time, and obviously it's way too early now to see and to assess what impact that will have.

Now, your question is just going to be -- finally, the end of this whole mis-selling discussion, well, maybe, and I would hope that for Aegon it's the end, but as you see, there's a lot of various actions and discussions going on in the Dutch environment, with different companies, and so it's very difficult to say what is going to happen, because everybody in Holland is free to start a court action if they wish, for whatever reason.

So I am hoping that, at least for Aegon, that it will make it clear that we have dealt with our customers in a way that we feel comfortable and a way that we feel really defensible, and that's exactly what we're trying to do. But is it the end for the sector? I think it's a very difficult question for me to answer.



Darryl Button - *Aegon NV - CFO*

Very short answer on the third question, on the ALM, the answer is no, we've not done anything special in the quarter to accelerate gains or change our ALM in any way, so those are just simply related to normal trading on a portfolio that is sitting in an unrealized gain position.

Maarten Altena - *Mediobanca - Analyst*

Okay, very clear. Thanks.

Operator

Thank you. The next question is from Paul De'Ath from RBC. Please go ahead.

Paul De'Ath - *RBC - Analyst*

Yes. Hi, there. Good morning, and a couple of questions, if I can, on sales and outlook. Firstly, in the US, we've had very strong variable-annuity deposits in the quarter, where other competitors are scaling back. Do you feel there's any limit on how much variable-annuity business you're looking to write in the US, assuming others are continuing to scale back? And I guess the second part of that question is what's that market looking like in Q3 and beyond?

And then the second question was in relation to Dutch pensions, where again you're seeing strong sales in the quarter, which is not necessarily what others have seen in the market. I mean, what's going on there? Is it just a stronger proposition that you've got, or are you willing to take things on at lower solvency levels? Where do you see that market going, now that we've got a bit of a spike up in interest rates? Thanks.

Alex Wynaendts - *Aegon NV - CEO*

Thank you for your question. Well, yes, we have seen strong sales, but I want to be clear that the strong sales in areas, segments of the market, that we have been selecting as those parts of the business that we would like to grow. So it is very consistent with our strategy. We've been working hard on improving our proposition on variable annuities. We've been working hard on providing and designing the kind of products which we believe now make a lot of sense for our customers today, but also make sense for Aegon.

And most importantly is we have been expanding distribution, and I gave a few examples -- Edward Jones, 12,000 advisers. But another one which I think is also an interesting one is that we've been chosen and selected by Voya as being their sole provider for variable annuities. So what you see here is that we are expanding our distribution and we are building on the momentum which we built.

Also, I would like to put it in the context that our market share still is between 3% and 4%, so we are still with a relatively small market share compared to a number of the very large players. So, therefore, a comparison between scaling back on one side and an increase on the other side is maybe a little bit -- distorts the picture to some extent, because we want to increase our business and we are very comfortable with the levels of sales we are having and hope that we see the momentum in the variable-annuity space continue on the same pace.

I also believe that the positioning of our Company in the US with the Transamerica brand, which is a positive brand, the fact that we have a strong capital position with strong rating, all of this is contributing to where we see a good development in sales.

The same I would say in the Netherlands. If you ask me about the Dutch pension business, here, this is the segment which we have flagged from a long time that's one where we feel we can add value and where we can sell products that are profitable for our customers but also profitable for ourselves. We have around, what, just on a 25% market share.



We've been focusing on improving further our administrative capabilities, and I think we have now systems are working well, well recognized in the market, but probably most importantly, our balance sheets. Our balance sheet in the Netherlands is clearly among the stronger balance sheet. We have in the past been very careful not to use capacity on our balance sheet at pricing which we felt was not attractive. So we've allowed sales -- well, not to come to us, to go somewhere else, and now what you're seeing is that with the flow of business coming to the market, and I think it also has to do with the fact that, now, coverage rates of pension funds are in many cases above 100%.

That makes it much easier now for companies to move their pension liabilities to an insurance company, and that's why you see the flow increasing, balance sheet capacity, very strong capacity, and I think that the rating, which in the Netherlands was never such a relevant thing, but after we have had a couple of whatever you want to call it, difficult situations in the financial sector with banks in the Netherlands, there is much more awareness of the rating. And our strong rating in the Netherlands is supporting us here. A strong IGD ratio, a strong rating and just the fact that we have been focusing on having a good proposition -- all these pieces are coming together and I therefore also believe that you will see a continuing of this momentum in the segment.

I want to make the point is that in our value business on a market-consistent basis, our pension business is contributing positively, so we are selling products above our [value weight].

Yes?

Paul De'Ath - RBC - Analyst

Great. Thanks.

Operator

Thank you. The next question is from Nick Holmes. (Operator Instructions). Please go ahead, Mr. Holmes.

Nick Holmes - Nomura Asset Management - Analyst

Oh, thank you very much. Yes, just one question. How confident are you that you're on course for your ROE target in 2015? You're only doing 6.7% at the moment, so basically, do you think that the target is achievable?

Alex Wynaendts - Aegon NV - CEO

Nick, thanks for your question. I think we have been very clear in June, during our analyst conference. I think Darryl laid out very clearly where we are. We said that, in view of the market circumstances, although we've seen a little improvement in interest rates, we are still with very low interest rate environment. We've also given you the impact of the deleveraging, and we shared with you that we are on a trajectory to achieve an ROE target of between 8% to 10%. And I believe that our numbers here in the second quarter are clearly on that trajectory.

Nick Holmes - Nomura Asset Management - Analyst

And taking it beyond 8% to 10%.

Alex Wynaendts - Aegon NV - CEO

And we have also been clear, and Darryl has been clear, that in order to take it beyond 8% to 10% and to get to 10% to 12%, yes, we clearly need to see an improvement in interest rates, but it would require more significant restructurings in terms of looking at businesses. We've also talked



about consistency of accounting, so we've flagged a number of items which would be required to get us from the 8% to 10% trajectory which we are clearly on now on an organic basis to the 10% to 12%.

Darryl?

Darryl Button - *Aegon NV - CFO*

Yes, I think the short answer, Nick, to your question is that we're probably still too close to June to add any new information. So in terms of those additional steps that are required to jump us to the 10% to 12% area, there is nothing that I'm ready to share at this point in time.

Nick Holmes - *Nomura Asset Management - Analyst*

Okay, thank you very much. Thank you.

Operator

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

Farquhar Murray - *Autonomous Research - Analyst*

Good morning, gentlemen. Just one very quick question. Just coming back to the impact from funds exiting the ECB AAA curve, does this have any impact on the way you manage your asset allocation at all, and in particular, the way you look at ALM going forward? Thanks.

Alex Wynaendts - *Aegon NV - CEO*

Yes, it's a great question, Farquhar, because obviously that's part of the discussions we're having with our regulator, is that we need to have clarity, because the clarity will also have an impact on how we manage our assets. So until we have clarity, obviously, we're not making any changes, but it could potentially have an impact. But it very much depends on the outcome, and I think it's still too early to say anything.

Darryl, you were in discussions with them.

Darryl Button - *Aegon NV - CFO*

Yes, and obviously how we manage the ALM is our decision behind it, but suffice it to say that we are concerned and manage to the volatility of our local capital ratios, so the underlying curve and its composition is an important part of how we make up our asset portfolio and do our ALM strategy. So to the extent that that curve changes, we would also position -- over time, we would make position changes, as well.

So, the answer to your question is yes, but probably not in a position to give you any detail at this point of how. We just don't know.

Farquhar Murray - *Autonomous Research - Analyst*

Okay.



Operator

Thank you. The next question is from Steven Haywood from HSBC. Please go ahead.

Steven Haywood - HSBC - Analyst

Hello?

Alex Wynaendts - Aegon NV - CEO

Steven, are you there?

Steven Haywood - HSBC - Analyst

Hi, good morning. Sorry about that. I see in your presentation you mention you're doing innovative insurance solutions, just on unfunded pension plans for clients in Europe. Could you potentially give us some idea of what you're doing here? And then also, could you say what you're doing -- what is being done to improve the non-life claims environment, particularly in the Netherlands? Thank you.

Alex Wynaendts - Aegon NV - CEO

Yes, when we talk about innovative solutions to provide solutions for unfunded, I think we need to be very clear. When we say unfunded, it is when the coverage ratio is just under 100%, so it is only in the cases of -- I don't know, it's 95% or 96%. So that is where we will be focusing on trying to find solutions that bridge that. That's part of us helping, finding solutions for those customers and those companies that are trying to lay off their liabilities out of their balance sheet and bring them to an insurance solution. But the unfunding element is just a small part.

The second thing is on claims for the Netherlands. Yes, I want to be very clear about this. This is a situation we're just not very happy about, the fact that we see on one side disability improve, which I think is a positive thing. To see that, then, on the other side being offset by much higher claims is an area of attention. Management in the Netherlands is very much focused on it now. I can assure you they're very much focused on it.

Will we be able to turn that around in one quarter is probably a question, but very clearly we have identified specific areas where we've seen the problems, and we're dealing with these issues. So on that basis, I do not expect this to be recurring, but keep in mind that, in general, when you have a more difficult economic environment, you do see claims going up. You do see the nature of the claims, also, which need to be looked into very carefully, so it's a part of the pattern of what you see in a more difficult environment. But management is very focused on it, and the specific issues we have seen that have caused these issues, they have been addressed.

Steven Haywood - HSBC - Analyst

Okay, thank you.

Operator

Thank you. There is a follow-up question from Farooq Hanif. Please go ahead, sir.



Farooq Hanif - Citigroup - Analyst

Hi, there. Thanks for taking my question again. I just wanted to ask Darryl, could you be a little bit more clear about what you mean by accounting consistency? So, for example, does this mean more consistent DAC, potentially DAC write-downs, that you can now do as your leverage ratio goes down? Thank you.

Darryl Button - Aegon NV - CFO

Farooq, sorry, can I get you to repeat that question? You actually cut out on the phone. Sorry.

Farooq Hanif - Citigroup - Analyst

Sorry. It's just poor technology that I'm using. Yes, to start again, can you be more clear about what you mean by accounting consistency? Does this mean, for example, DAC write-downs in some areas that you are now better able to do because of your leverage ratio? Thank you.

Darryl Button - Aegon NV - CFO

Accounting inconsistency, are you talking about the mismatch on the fair-value items, or are you talking about what I said back in June?

Farooq Hanif - Citigroup - Analyst

I mean about ROE, the comment you made in answer to Nick's question. It sounds like if E was a bit lower it would help.

Darryl Button - Aegon NV - CFO

Yes. Obviously, so we're looking at areas across the organization, making sure that we are looking at all of our accounting practices, making sure that we're getting consistency not only across the globe and with our peers, so consistency with how our peers are reporting. I think I talked specifically in June about the DAC changes that have been made in the US going back 18 months ago and the inconsistency that that's left us with relative to our US peers -- inconsistency between assets and liabilities, as well, looking at areas where we have mismatches in our accounting and what we can do in the confines of the accounting practices to try to get better, more relevant information brought to you.

So it's a consistency statement both externally and with peers, but also between assets and liabilities.

Alex Wynaendts - Aegon NV - CEO

But it's nothing new. We're not saying anything new. What we are not saying we haven't been saying in June, so there is nothing new since then.

Darryl Button - Aegon NV - CFO

Yes. I hope to bring you more clarity. The short answer is we are working on that issue. I said we would work on that in June, and I have no update this quarter. And perhaps in the third quarter, I'll have some more to say.

Operator

Thank you, gentlemen. There are no further questions.



Alex Wynaendts - Aegon NV - CEO

Well, then, I would like to thank you all very much. Thank you for attending this call in the middle of the summer, and we do appreciate your continuing to have interest for the Company and look forward to seeing you all very soon. Thank you very much. Bye.

Operator

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

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