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AGN.AS - Q4 2016 Aegon NV Earnings Call

EVENT DATE/TIME: FEBRUARY 17, 2017 / 8:00AM GMT

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PRESENTATION

Operator

Good day and welcome to the Aegon Q4 results analyst and investor conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Willem. 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 fourth quarter 2016 results. We would appreciate it if you take a moment to review our disclaimer on forward looking statements which is at the back of this presentation.

After the prepared remarks, our CEO, Alex Wynaendts, will answer your questions.

Matt Rider is joining us today; however, as he has not been formally appointed yet as our CFO, he will not be taking questions at this time.

I will now hand it over to Alex.

Alex Wynaendts *- Aegon NV - CEO*

Thank you, Willem and good morning everyone. As always, thank you for your interest in our Company and also for joining us for our fourth quarter 2016 earnings call.

I would like to begin by providing you with a brief overview of the key developments this quarter. We reported strong underlying earnings, which were supported by successful expense savings program, favorable markets, and improved claims experience in the US.

As a result of favorable markets, our Solvency II position increased to 159%, which is in the upper half of our target range. And furthermore, I'm also pleased to announce a final 2016 dividend of EUR0.13 per share, bringing our full-year dividend to EUR0.26 per share.

Let's now move to the next slide and take a closer look at our underlying earnings for the quarter in more detail.

Underlying earnings before tax increased by 27% to EUR554 million. This was mainly due to strong results in the Americas, as we are seeing the benefits of our five-part plan to improve returns in the US that we announced in the second quarter 2016.

As we indicated at the Investor Day in December, we continue to make significant progress towards our expense savings target. These cost reductions resulted in an uplift in underlying earnings year-on-year, and I will provide you more details on the program shortly.

Earnings were also positively impacted by favorable markets, as higher interest rates resulted in a favorable EUR25 million tangible -- intangible adjustment in the US and Asia.

In addition, rising equity markets increased account balances, resulting in increased earnings from our fee-based business.

We also saw improved claims experience in the US during the quarter, driven by favorable mobility in long-term care and supplemental health, while mortality experience in the life business was in line with our long-term expectations.

Let's now zoom in on our expense savings program on slide 4. I'm pleased to share with you that we're successfully executing on our program to reduce expenses, and as announced in December, we have increased our 2018 expense savings target by EUR150 million to a total of EUR350 million.

I would like to emphasize here that these expense reductions will enable us to improve returns, and at the same time fund the necessary investments that we continue to make in technology in order to fully digitize customer experience.

In 2016 we achieved run rate expense savings of EUR110 million, double our original full-year target of EUR56 million. This has allowed us to double our US expense savings target to $300 million, and we expect to reach our original target of $150 million one year ahead of schedule.

To support this target, we've taken significant management actions in the fourth quarter. They include the planned closure of three locations, a further net reduction of more than 500 roles and the strategic decision to close our Affinity, Direct TV and Direct Mail channels.

In the Netherlands and at the holding, we're also well on track to achieve the planned expense reductions, and have continued to make good progress towards our 2018 target.

Let's now turn to slide 5 and how net income developed over the quarter. Our net income of EUR470 million is a significant improvement, both in comparison with recent quarters and with the fourth quarter of 2015. As I highlighted a few moments ago, we reported underlying earnings of EUR554 million, or from a non-underlying earnings perspective it was on balance a very benign quarter.

Fair value items, which amounted to a EUR13 million loss, were mainly impacted in the Americas by market performance and volatility following the US elections. These losses were offset by positive real estate revaluations and the impact of favorable market movements on the guaranteed portfolio in the Netherlands.

Realized gains totaled EUR36 million and were mostly a result of private equity divestments, while other charges amounted to EUR38 million.

We continue to see a favorable effective tax rate, primarily due to tax credits in the US and in the UK, and as a result, effective tax rate this quarter on underlying earnings was 15%, which is below our blended statutory tax rate of 32%.

I would now like to highlight our record gross deposits for the year on the next slide. The record of EUR100 billion of gross deposits in 2016 was mainly driven by retirement plans in the US and our global asset management business, and clearly demonstrates the success we've had with shifting our business towards fee-based products.

In terms of asset management, gross inflows were mainly the result of higher inflows in our Chinese joint venture.

The US retirement plan gross deposits increased, mainly due to the acquisition of Mercer's retirement business, which now allows us to compete in the jumbo segment as well as higher recurring deposits.

As I indicated at the third quarter, we anticipated higher outflows after the Mercer acquisition and expect elevated outflows to continue until early 2018, as the portfolio business is being migrated onto our platform.

Despite these outflows, full-year net deposits were positive and totaled EUR2.7 billion in 2016.

In the UK, Aegon's platform showed record net inflows of EUR2.2 billion for the quarter, of which EUR600 million were from new customer inflows. The platform now has over [EUR60 million] of assets and over 440,000 customers, confirming it as one of the fastest growing in the market. Indeed, including Cofunds' and BlackRock's defined contribution business, we will manage well over EUR100 billion in assets.

These inflows, in combination with favorable market movements, contributed to an increase in revenue generating investment of 5% year-on-year.

Let me now move from deposits to our insurance business, and turning to slide 7. New life sales were down by 12%, a reflection of lower agent recruiting at our World Financial Group distribution channel in the US.

In the Netherlands, we continue to see a shift towards fee-based solutions, which led to lower life sales. As a result of our decision to exit certain products in the Americas in the first half of 2016, accident and health new premium production declined to EUR224 million.

At the same time, we've also made the decision to run down our existing business in the Affinity, Direct TV and Mail channels with immediate effect, as these businesses do not meet our strategic objectives.

From a top line perspective, sales will mainly be impacted by loss of travel insurance sales while underlying earnings impact is expected to be modest and offset by the additional expense savings announced at the Investor Day.

As a result of our decision, $100 million of capital will be released over the next years.

Finally on sales, I am pleased that we've extended our successful partnership with Banco Santander to include health insurance in Spain and expanded distribution in Portugal. This will support the further growth of our joint venture business in Spain and Portugal.

Turning to slide 8, which shows the development of our Solvency II ratio during the fourth quarter. As you can see, our Solvency II ratio increased to 59% (sic - "159%", see slide 8) as capital generation and favorable market impacts were partially offset by one-time items.

In the Netherlands, the Solvency II ratio decreased to 141%, as the volatility adjustor did not show material recovery after the steep decrease in the third quarter.

The benefit from higher interest rates and higher credit spreads was partly offset by adverse effect of increased inflation expectations, and in addition, a required capital increase in the fourth quarter, driven by the repositioning of the Dutch investment portfolio, together with the additional interest rate hedges we put in place in December to reduce our interest rate sensitivities.

You will be aware that our regulator, the Dutch Central Bank, recently issued new guidance on the calculation of the loss-absorbing capacity of deferred taxes, LAC DT. This took place in early February.

Our two-year assumption for LAC DT is 75%. A reduction of the LAC DT assumption by 25 percentage points would reduce our Dutch Solvency II ratio by 8 points and would reduce the Group ratio by 3 points.

I'm turning to the US where US RBC ratio amounted to 440% as capital generation was more than offset by dividend payments to the holding.

In the UK, our Solvency II ratio was up to 156%. As you are aware, we are working on the completion of the Part 7 transfers, which we expect to complete this summer. This is expected to free up additional capital, which we intend to upstream to the Group.

I will now turn to slide 9 to our holding excess capital position, which amounted to EUR1.5 billion at the end of 2016. Remittances from the Americas, asset management, Central and Eastern Europe and Spain and Portugal well exceeded the dividends paid to shareholders and holding expenses in the year.

We expect remittance to remain strong and this will enable us to continue returning capital to shareholders through growing dividends.

Our holding excess capital of EUR1.5 billion is at the top end of our target zone, despite one-time items in 2016, such as the share buyback and capital injections to fund growth, particularly in Asia.

In December, we issued EUR500 million of senior notes with a coupon of only 1%, taking advantage of market circumstances. The proceeds of this issuance are earmarked for the redemption of a 3% senior note due July of this year.

As we shared with you last year, the holding had planned to receive a dividend from our Dutch business over 2016. In the meantime, we have upstreamed EUR100 million from our operating entities to the Dutch holding company, and a decision to upstream this dividend from Aegon The Netherlands to the Group has been postponed until we finalize our review on the new guidance from DNB on LAC DT. And this is expected to take place in the second quarter of 2017.

Let me now turn to dividends on the next page, that's slide 10. It is one of our priorities to return an attractive level of capital to shareholders. In 2016 we made significant progress with our commitment of returning capital to shareholders by completing the EUR400 million share buyback in the first half of the year and by announcing a final dividend of EUR0.13, bringing the total dividend payment for the full year to EUR0.26, which is an increase of 4% compared with last year.

The full-year dividend marks the fifth consecutive year that we have increased our dividend return to shareholders. Indeed, since 2011 we have increased our dividend by nearly 25%.

Now let me turn to slide 11, where you can see an overview of the progress we've made executing our strategy in 2016, and then look ahead to our main priorities in 2017 and 2018.

In the US, we continued to execute towards achieving One Transamerica by aligning the organization by function. This has allowed us to accelerate our expense savings program and to execute successfully on the five-part plan.

In the UK, we successfully completed the transformation of our business from a largely traditional pension business to the leading platform business in the UK market. And we achieved this by divesting in two steps, our capital intensive and sizeable GBP9 billion UK annuity book, and by freeing up approximately GBP500 million of capital.

With the Cofunds and BlackRock acquisitions, the platform will have over GBP100 billion of assets under administration, making it the largest platform in the market.

Looking ahead, we expect to realize significant revenue synergies through cross-border collaboration in Continental Europe. Meanwhile in Asia, we've been focused on supporting the growth of our businesses, while improving capital efficiency significantly.

As announced earlier, one of the measures we've taken to improve returns and cash flow generation in Asia is to restructure the Affinity business. We are exiting non-profitable businesses and investing in digitally enabled new businesses.

And finally, we continue to explore ways to reduce the IFRS capital allocated to run-off businesses in the US, particularly related to payout annuities and BOLI/COLI. As you are aware, the prospect for potential transaction has improved with higher interest rates.

So to close, I would like to give you an update on the progress we are making towards our 2018 financial targets.

So far we have achieved run rate expense savings of EUR110 million, which is significantly ahead of our initial 2016 target. This has allowed us to increase our expense savings target and gives me every confidence that we will reach our increased target of EUR350 million by the end of 2018.

I'm pleased with our solid Solvency II capital ratio of 159% for the Group, which, as I mentioned before, is in the upper half of our target range. Our ratio remained stable throughout 2016, despite the volatile markets we experienced, supported by strong local capital ratios in our operating units.

Furthermore, we've also been able to maintain a stable holding excess capital position while returning EUR930 million to shareholders over 2016, including a final 2016 dividend of EUR0.13 per share.

I remain confident that we will take the necessary measures so we can make significant progress towards our 2018 targets.

I'm now ready to take your questions. Thank you very much.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). So now we'll take our first question from Ashik Musaddi from JPMorgan. Please go ahead, your line is now open.

Ashik Musaddi - *JPMorgan - Analyst*

Hi, good morning, Alex. I have three questions. First of all, can you give us some clarity about your interest rate sensitivity, especially in the US? Somehow it shows that the rising interest rate is negative and falling interest rate is negative as well, so what are we missing here? Because if I think about it economically, a rising interest rate is fascinating news for the life business in the US. So what are we missing here? Any thoughts on a more economic basis rather than just headline solvency basis?

Second thing is, can you give us a bit more clarity on Dutch capital position? Because it looks like there has been a drop over first half numbers and there's still uncertainty around LAC DT. How should we think about the dividend upstreaming from Netherlands? You flagged about EUR100 million but how should we get comfortable with that?

And thirdly is, are you continuing to remain confident that even if you don't get any dividend from Netherlands and from UK, your dividend is still covered going forward as well, dividend and hold co cost? That would be great if I can get clarity on these three ones. Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Thanks, Ashik, for your questions and let me try to answer them, all three. First on the interest rate sensitivity. Indeed we have shown you the sensitivities on slide 27. But I'd like to make a couple of comments, which hopefully will help you understand what the dynamics are.

First of all, the interest sensitivities are mostly impacted by our VA business in the US, and as you know, we hedge our interest rates, our equity exposure, also volatility, amongst others, and it's quite a complex -- how should I say this -- very complex hedging we're putting in place.

And the sensitivities that you see here, effectively they're shown at a point in time, and they're also shown in isolation on the basis that the shocks happen instantly. What it doesn't show here, and what is not reflected, is that we constantly rebalance our positions as part of a dynamic hedging program.

So your point of saying that higher rates is good for our business is absolutely true and is still true, and that is not reflected properly in sensitivities, because these sensitivities, they show you at a certain point in time but do not show the rebalancing, and also do not show the positive impact of higher spread because you get more interest rate, which as a plus doesn't show you the positive of higher fees when the equity market goes up, because it only shows it at a certain point in time.

So I hope that helps you, and I can confirm here that higher interest rates is good for our business, is good for our customers and is good for all of us.

In terms of the capital position of the Netherlands, what I'd like to say is that in the Netherlands the ratio actually was affected quite significantly by the EIOPA volatility adjuster, which dropped in Q2 from 18% to 10%, 10 points in Q3, and then rebounded a little bit in Q4 but stayed quite low at 13 basis points. And at Q3 you will remember we did flag that this EIOPA VA had quite a negative impact on our ratio.

Now we've seen indeed some interest rate increases, which is positive, but these were offset by an adjustment we had to make in relation to our inflation expectations. And as you know, inflation expectations in Europe have actually over the last couple of months gone up. So we had to make a one-time adjustment for inflation.

And in addition to that, I flagged two items. One of them was that we're repositioning our portfolio to try to take advantage of investment opportunities in illiquid investments. That requires a higher SCR. And finally, equally important is that we further reduce our sensitivity to interest rates by putting up more hedges. And when you do so, you also effectively reduce your level of capital, but what you do is reducing the sensitivities even more.

I hope that explains the Dutch position so I can talk about the dividend. If you look at remittances, last year we have had cash flow generation of let's say around EUR1.2 billion, which is the EUR300 million I mentioned times four. But we also have dividends upstreamed from all our businesses of EUR1.1 billion, which I think confirms that our dividend is pretty well covered, even on the basis of 2016 where we did not get a dividend neither from the Netherlands and for the UK. So our dividend is well covered.

I did mention our situation in the UK where we expect to have completed our Part 7 in the summer, and that for sure will lead to a release of excess capital which we intend to upstream. So all this combined should give you, in my view, absolute comfort that our dividend to shareholders is well covered.

Ashik Musaddi - *JPMorgan - Analyst*

Okay. That's very clear. Thank you. Thanks, Alex.

Alex Wynaendts - *Aegon NV - CEO*

Thanks.

Operator

Thank you. And now we'll take our next question from Albert Ploegh from ING. Please go ahead, your line is now open.

Albert Ploegh - *ING - Analyst*

Yes, good morning all. Two questions from my side. I would like to go a little bit into the US earnings, and especially what has been flagged as the one-time items. This quarter clearly there was quite a positive experience in the long-term care, which of course was an issue last year and a review took place in Q3. You do flag the word seasonal in there, so how should we consider this EUR34 million positive in the first quarter -- sorry, in Q4, and how to look at that in terms of the run rate going forward on that specific business line?

At the same time, you mentioned also the adverse persistency on the universal life policies. Can we have a little bit of color there and how comfortable are you with that experience going into 2017? Thank you.

Alex Wynaendts - *Aegon NV - CEO*

So Albert, thanks for your question. In terms of the claims experience, yes we are pleased to see positive claims experience in long-term care, and in our health business, in both businesses.

Now the seasonality of it is the following. As you say, a lot of the business we do in supplemental health is effectively insuring or covering the deductibility. And that means that we have more claims in the beginning of the year because that's when the people are using up their deductibility. In the second half of the year in most cases the deductibility has already been used, and that means they can't claim with us. And that explains that seasonality.

I think it's very difficult to say what part is seasonality, but I would say we've had just good performance and good experience and some seasonality.

Now in terms of persistency, the adverse persistency is specifically into one area, and that's been universal life policies. But what I'd like to say is that they have remained with what is the expected volatility range. I don't believe that -- we don't believe that the most -- the recent experience we've seen here is something that we necessarily will see continuing going forward. Thank you.

Albert Ploegh - *ING - Analyst*

And maybe one small follow-up more from a cash flow perspective. You mentioned UK Part 7 transfers. What can we expect a little bit in terms of timing? Will that be then more let's say a Q2 event, so more news in August, or is it more an end of year kind of event and what's the -- let's say can you give a little bit of feeling on the kind of size and how we should link that to the regulator in terms of approvals of that? Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Yes, Albert, as you mentioned, Part 7, we have two Part 7s. The one was the first deal, the Rothesay deal, and the second Part 7 was with the second deal with Legal & General. And we were planning for the summer.

Now that means that this -- the dividend or the upstreaming is clearly a second half of 2017 event. As you know, we have now a very different business in the UK, very much derisked and much more a fee business, and that makes it also more predictable for us to be able to be comfortable about upstreaming the dividend to the holding.

Albert Ploegh - *ING - Analyst*

Thank you.

Operator

Thank you and now we'll take our next question from Darshan Mistry from Citi. Please go ahead, your line is now open.

Darshan Mistry - *Citigroup - Analyst*

Morning. Two questions please. Firstly on the Solvency II sensitivities within the UK, could you provide some color as to why the sensitivities for the UK business have increased significantly versus 2Q? And could it be that once your Part 7s are in fact completed in the UK, could the sensitivities normalize or drop again? That's with reference to interest rate sensitivities and credit spread sensitivities.

Secondly, on the Dutch Solvency II ratio, you seem to have taken quite a big hit versus the -- where you would have been on a roll-forward basis, but your interest rate sensitivities don't seem to have decreased materially. So could you please again provide a bit more color as to what's going on within the Netherlands? Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Thanks, Darshan. In the UK, the way you need to look at it is that effectively by executing on the sale of our annuity book, we are reducing our SCR. And that means that the interest rate sensitivity that we have remaining in the UK is related to our employee pension fund.

So it's a smaller amount that is related to a smaller SCR, and that's why in percentage points you see that the sensitivity is what you see happening there. So that's -- you have to relate it as smaller movements on smaller SCR, but in terms of percentage, that's not necessarily smaller. I hope that answers your first question.

Yes, and on the Netherlands, what I can do is repeat and hopefully give you a bit more color, what I said earlier in answer to Ashik's question, is that there's a couple of important drivers in the Netherlands.

That VA adjuster, the decline from 18% to 10% with a small rebound to 13% has been quite significant. And yes, interest rates have increased, but as I explained, the inflation expectations also going forward have increased, and that means we had to take a one-off impact for higher inflation expectations and other items, like repositioning the portfolio, as I mentioned, and also putting in place more hedges just requiring more capital.

Now I think that the sensitivity in the Netherlands on interest rates now is lower than it was and that also is to give ourselves -- our regulator more comfort that we are less dependent on fluctuations of the market.

What I'd like to add on the Netherlands is that we of course will engage and are starting to engage with the regulator on the review of our LAC DT, which is now subject to the guidance which has come out I think exactly two weeks ago, not even two weeks ago. As you know, it's very complex; the guidance is very clear on a number of points but we need also to get interpretation on others and see how it gets applied to us specifically with the DNB.

We've also mentioned earlier to you that we're looking at management actions we take in relation to positioning our portfolio. We also have mentioned earlier that we are putting forward, have put forward requests for some model changes. So there's a lot of pieces that are moving parts and a lot of action that has taken place, and that's also -- the complexity I think is well highlighted by the fact that the Dutch regulator has actually given us six months to come up with this clarification, and we would like to use the six months to address all the other items I just mentioned to you before.

So that's what I'd like to add on the Dutch Solvency II ratio. Thank you.

Darshan Mistry - *Citigroup - Analyst*

Perfect. Thank you.

Operator

Thank you and now we'll take our next question from Farooq Hanif from Credit Suisse. Please go ahead, your line is now open.

Farooq Hanif - *Credit Suisse - Analyst*

Thank you. Hi everybody. I just want to come back on this inflation expectation. Is this related to wage increases on the defined benefit book? I just wondered if you could clarify that?

And secondly, in the US, if we do get a delay to the DoL regulatory changes -- I'd be interested in your view on that anyway -- but if we do get a delay, isn't there an issue that you've updated your product suite and actually you might have to revert to some previous product suite or change the way that you price your VAs or deliver them to adapt? How readied are you for the two potential outcomes of DoL or no DoL? If you could answer that, that would be really helpful. Thanks.

Alex Wynaendts - *Aegon NV - CEO*

Farooq, good to hear you back. On inflation, I would say it's really general inflation. So it's not so much the wage increases that is in our defined benefit plans, it's just the fact that we need for our cost going forward long-term business, we need to make assumptions on inflation, that's wages and any type of costs. And as you know, in the Eurozone, inflation is now starting to creep up, and we see now some headline inflation numbers. And we need to reflect that in a Solvency II, and that has affected our own funds.

But it's a one-off so I think the inflation expectation now is a step-up and hopefully from here we would not need to adjust that much more.

Now in the US, in relation to the Department of Labor regulation, yes, as you know, now has been clear that the implementation will be postponed. Having said that, we continue to take all the steps and make sure that we can implement the rules, including no changes, as was originally planned for April for this year.

We still want to see what the review will lead to and we've taken steps; we want to be prepared and will be prepared. Now what impact it will have on product mixes, certainly there will be products with commissions or products with fees. That is clear that will be a change. We by the way have already started launching new products that address that new environment.

But what is more important I would say is that also the distribution feels comfortable in selling the product, because we can adjust ourselves and be well prepared, but distribution needs to be comfortable that the changes -- that they are in line with the changes. And that is something we still have to see.

Farooq Hanif - *Credit Suisse - Analyst*

So in terms of just -- if I may just follow up on that. Sales have been weak in the market. Do you think there's still going to be a period of uncertainty on sales? When do you think you can rebound? And what part do higher yields play? I know that these products have been derisked but what part does that play on demand and ability to give more attractive guarantees?

Alex Wynaendts - *Aegon NV - CEO*

Well Farooq, I think it's difficult to say when sales -- what sales will do in the future, but what I can say is that with interest rates now clearly higher than what they were, the good thing is that the cost of guarantees is down for customers, so they will be using them better to buy these products, and at the same time, it also enhances the profitability of the sales which we're taking.

I do think that the market will want to see clarity on where is this all going? Because we're talking about a delay. So we want to get clarity and that's the reason also we are now assuming as if the Department of Labor rules would be applicable so that at least we know for sure that whatever comes out of Department of Labor, it's something which we already implemented and have implemented. And that should be positive for our sales.

Farooq Hanif - *Credit Suisse - Analyst*

Okay, thank you very much.

Operator

Thank you. And now we'll take our next question from Arjan van Veen from UBS. Please go ahead. Your line is now open.

Arjan van Veen - *UBS - Analyst*

Thank you. I have a couple of questions on just dividend upstreaming and the cash position of the HoldCo.

Firstly, on Netherlands, the solvency ratio is 141%. You kindly gave us sensitivities to any LAC DT changes. One of your peers yesterday said that their solvency position today is down from year end, from -- due to mainly solvency spread changes and obviously, the sensitivity for them is quite high. You don't specifically disclose it.

So the question really is, you have a target of [225] from Netherlands. You didn't upstream that in 2016. I note that the EUR100 million you put in the HoldCo. But given where we're at, at this point now, could you give some view as to whether you think Netherlands upstreaming in 2017 is likely -- and I'm a bit -- personally I would think it's better to rebuild the solvency and then pay out dividends. So I would actually just would suggest actually not paying dividends for a while until you get to a very comfortable situation.

And then the second question is more then, when we look at the whole capital upstreaming, from the Company as a whole. So US, your target is EUR900 million, which is paying out based on sensitivities you gave at the solvency -- sorry, at your investor day in December, and the US is paying out effectively 100%.

Your dividend currently is EUR530 million plus EUR300 million corporate costs, so you're basically -- your US upstreaming is covering your dividend and corporate costs.

So the question really is then, when we look at the cash, that corporate offer is EUR1.5 billion but you raised EUR500 million of debt on December 9, and that rolls away again middle of the year, because it's been issued to replace some debt that you already have. So that drops back down to EUR1 billion.

So really just curious around, your target's EUR1 billion to EUR1.5 billion, you're at the bottom of that if you take out that debt. Where -- I note your comments you made around the UK, so really just curious as to what you see the dividend upstreaming capacity is, or upside to what you've said previously around some of the other divisions like asset management in Europe and whether age is still going to be a negative drag as per your guidance? Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Right, Arjan. On the Netherlands, there's not so much more I can say than we have said already, so I think that's been clear. I would just add one point in relation to the comment on the government spreads. I think you know that the positioning of our portfolio effectively means that we have very limited exposure to government spreads.

I'll just give you a number, is that if government spreads would widen by 25 basis points, it would have a 3% negative impact on the Solvency II ratio of Aegon, the Netherlands. So as you can see that is very limited. The reason is also that most of our investments in Netherlands are in Dutch and German government bonds and in Dutch mortgages, which, as you know, have been a very good -- a very well-performing asset.

Now, in terms of upstreaming, I think you made the points yourself, on the US and what I've said on the Netherlands, I think, in my introductory remarks was clear. We need clarity on where LAC DT before I'm going to make more comments about likelihood or not likelihood of what we will do with the dividends. And I would agree with you that we do need to have a good starting point, have a good capital position before we start paying out dividends. We will all agree with that.

Now, as you mentioned yourself, our dividend actually is pretty well covered. Our dividend plus holding expenses is very well covered if you only look at the dividend of the US.

I mentioned a couple of things. The UK. The Part 7 will be executed in summer. That will lead to the release of excess capital and that will be -- part of that or -- will be upstream to the holding. And that's a second half of the year event.

CEE, asset management, Spain, continue to provide dividends to the holding.

And finally, I'd like to make a remark on Asia. I did say in my introductory remarks that we are working on capital efficiency in Asia, on a number of fronts, and I do expect, actually, that our Asian business has -- will be in an excess capital position, going forward. And that should also give us some room there in addition to the announced measure we announced already, which is the exiting of our Affinity business, which is effectively also generating cash flows, and as such, dividends.

Arjan van Veen - *UBS - Analyst*

Thanks, Alex. That's very helpful.

Operator

Thank you. And now we'll take our next question from Farquhar Murray from Autonomous. Please go ahead, your line is now open.

Farquhar Murray - *Autonomous Research - Analyst*

Morning, gentlemen. Just two questions, if I may, all focused on the LAC DT guidance discussion. Firstly, please could you just work through which elements of the guidance you regard as new, and what will be the process to reaching certainty around the implications of this? As you say, we seem to be given about six months to do this.

And then secondly, Aegon seems to be making much more cautious comments on this LAC DT guidance than a peer did yesterday. Does that reflect indications from the DNB on your approach, or is it just a more prudent approach to what's presumably a relatively complicated calculation and process? Thanks.

Alex Wynaendts - *Aegon NV - CEO*

Farquhar, on the LAC DT, what you're seeing is a guidance, that is covering a number of points. It's not addressing all the aspects of LAC DT. This is a guidance. It's more like a Q&A, I think it's been talked about, that's addressing a number of specific points.

Now, I'm not going -- and I'm not in a position today to say which one is new or not new. It's also about the interpretation and how you apply that to your business. So you will really have to wait -- I'm sorry -- for the next six months for us to work this out through, in a thorough way, ourselves, together with our regulator.

So the remarks we're making on the LAC DT is just to say, this is very complex. It is not for nothing, by the way, that the regulator has given the industry six months to clarify this. And as I mentioned, we also want to take advantage of the six-month period to address a number of other issues -- the number of management actions we can take, for the Solvency II ratio. We've told you already that we have submitted a request for some model changes and they need also regulatory approval.

So what we are trying to achieve is to get all these things together, and that will be done by the end of the second quarter.

Farquhar Murray - *Autonomous Research - Analyst*

Okay. Thanks.

Alex Wynaendts - *Aegon NV - CEO*

Thanks.

Operator

Thank you. And we'll take our next question from Nadine van der Meulen from Morgan Stanley. Please go ahead, your line is now open.

Nadine van der Meulen - *Morgan Stanley - Analyst*

Yes, good morning. Thanks for taking my questions. On the -- sorry, another question on LAC DT. You mentioned if it's -- if the cycle drops from 75% to 25% that it would have an impact, I think, on the Netherlands solvency ratio of 8 percentage points. So that would, on the current basis, bring the solvency down to around 133%.

I was wondering if you could remind us of the capital generation in the Netherlands? Previously you've guided on that. I'm not sure if that has changed. So we can have an idea of how long, potentially, it would take to get to a certain level, comfortable enough to upstream again.

And previously, when you didn't upstream cash from the Netherlands, and the moment you started doing that again was when the level was -- the Solvency II level was above 150%. Just wondering if you could comment on that? Whether that was the sort of level that you'd need or between 140% and 150%, for you to be comfortable? That's the first question.

The second question is with regard to the net dividends received from the units, at the nine-month level you had received from the units EUR700 million, and that has now jumped up to EUR1.1 billion. That jump up, so in Q4 is a bit bigger than what I expected, especially because the Netherlands is zero. Would you mind giving the split for the regions and comment on the sustainability of each of the regions? That would be super helpful.

Yes, I suppose lastly on the yields, so, if you look at the reinvestment yields versus the back-book yields, could you give us an update on where you are there? Because in the past you've guided that if yields would remain where they were in year one, there would be a negative EUR40 million impact, year two EUR60 million and year three EUR100 million. Perhaps you can update us on that guidance?

Thank you very much.

Alex Wynaendts - *Aegon NV - CEO*

Nadine, thanks for your question. I think what -- on the LAC DT, there really is not much more than what I can say -- what I said earlier. We just wanted to give you some sensitivity. But you need to keep in mind that the sensitivity, as I said it earlier, in the context of the VA sensitivities, that's a -- at a point in time and in isolation. And that's not the reality.

The fact is that we have a lot of moving parts in that Solvency II calculation. And therefore we want to give you the sensitivity, also to give you more the direction and some idea of materiality. But the pieces usually work in different ways together. So that's what I think you need to keep in mind. And I'm not repeating what I said earlier about all the other things which we're working on in Q2.

Now, in terms of --

Nadine van der Meulen - *Morgan Stanley - Analyst*

I completely -- sorry. I completely appreciate that, and so probably maybe -- to push on this one, but would you mind giving at least an indication of what the solvency range would be in the Netherlands that you would be comfortable with compared to upstream?

Alex Wynaendts - *Aegon NV - CEO*

I just want to make first -- I was just going to get there, Nadine, to make a comment (multiple speakers) --

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Nadine van der Meulen - *Morgan Stanley - Analyst*

I'm sorry.

Alex Wynaendts - *Aegon NV - CEO*

No, don't worry. No problem. The last time that we did upstream dividends, I need to remind you, we were not yet in a Solvency II world, so there was no 160% because the last time we upstreamed dividends was in the Solvency I world.

So we've given you a range, a target capital range, and for the time being we have no reasons to change the target capital range.

What you also need to take into account is that the target capital range has to be seen in conjunction with sensitivities. It's a combination of two. And clearly with the process around LAC DT, with the process that I mentioned with other things that we address in discussing with the DNB, we will take again that opportunity to have a review of our capital ranges and ensure that both us and the regulator are comfortable going forward.

But I cannot say this at this point in time because the review all the work needs to be done, the sensitivities, being a very important part of that, will all take place in the next six months.

Now, you have noticed that we have reduced -- and I mentioned that by additional hedging we put in the Netherlands, we have reduced further our sensitivities in the Netherlands. So in terms of your second question on the upstreaming of dividends, I cannot risk -- give you an answer exactly what was paid at Q2, Q3 and I can ask Willem van den Berg to come back to you to give you the exact dates.

What I know is that over the year 2016 -- and you're right, the fourth quarter usually is the quarter we get dividends -- we received EUR1.1 billion.

Now, and your third question on yields, let me give you the yields. On new money in the fourth quarter there was 3.8%, while the current new money yield is 4.2%. The back-book yield actually hasn't changed, and remained at 4.7%. So what you see is the gap is closing. I think that was your question, really, you want to find out. The gap is closing.

Nadine van der Meulen - *Morgan Stanley - Analyst*

Yes.

Alex Wynaendts - *Aegon NV - CEO*

New money at 4.2% versus 4.7%. That's only 50 basis points gap. And that means therefore that the earnings drag from rates staying at this level, if they would not move up, is also reducing. Yes?

Nadine van der Meulen Yes. Okay, thank you.

Alex Wynaendts - *Aegon NV - CEO*

Was that your question, Nadine?

Nadine van der Meulen - *Morgan Stanley - Analyst*

Yes. I mean, even on the EUR1.1 billion, cash upstream for the full year, could you give a split of that? Of the different regions?

Alex Wynaendts - *Aegon NV - CEO*

Well, the largest part obviously, as we discussed earlier, is coming from the US.

Nadine van der Meulen - *Morgan Stanley - Analyst*

Yes, of course.

Alex Wynaendts - *Aegon NV - CEO*

And we have received a dividend from -- in central and eastern Europe, we received a dividend. We received a dividend from asset management and we received a dividend from our business in Spain. These are the big chunks.

Nadine van der Meulen - *Morgan Stanley - Analyst*

All right. Thanks.

Alex Wynaendts - *Aegon NV - CEO*

Thank you.

Operator

Thank you. And we'll now take our next question from Nick Holmes from Societe Generale. Please go ahead, your line is now open.

Nick Holmes - *Societe Generale - Analyst*

Hi, everyone. Hi there. Thank you. Two quick questions. The first is, Alex, can you give us a bit more color on your plans for the US run-off book? I think you said you're looking at pay-out annuities BOLI COLI. I just wondered what the latest was there?

Then secondly, coming back on the DoL. I remember at the investor day you were talking about fixed index annuities and the opportunities for you with that product. Wondered, is that something you're getting into at the moment? Thank you very much.

Alex Wynaendts - *Aegon NV - CEO*

So, Nick, yes, on the run-off business, we've been saying already for some time that we would like to get our pay-out annuities and BOLI COLI businesses sold, together. With interest rates rising, clearly, the valuation for us gets more attractive and there's been more appetite in the market.

I did also mention that these businesses are not in a separate legal entity and that means that the contract that we need to put in place is not about selling a company. It's about effectively re-insuring our BOLI COLI and pay-out annuity business. And that means that you introduce a counterparty risk. Because the buyer, the one that takes over this business, effectively becomes a counterparty risk for us.

And that's why we need to make sure that not only we attract -- we get a good price, but we also have the right counterparty, because it would not make a lot of sense to free up capital and then to have -- to allocate capital to a counterparty risk. So it's a combination of the two.

I did mention it in my introductory remarks. And this is based on the fact that we have actually seen significantly more interest recently in these businesses and yes, it's too early to say what will happen. But I would not have mentioned in my remarks if we would not have seen additional interest coming in.

Now, on the Department of Labor, yes, that's -- to come back to what we said earlier, a postponement also means some uncertainty, so that's the reason why we are assuming, effectively, our work, our base case is that these rules will be implemented and if there's a delay or relaxation, and particularly in the number of modalities around litigation -- I think I've mentioned that to you earlier -- that would be positive.

We talked about the fixed index annuity, and what I say, we've introduced that product also, but it's now too early to talk about really sizeable amounts of sales, but now we have that product also and introduced that.

Nick Holmes - *Societe Generale - Analyst*

That's great.

Alex Wynaendts - *Aegon NV - CEO*

And just (multiple speakers). So it's about implementing, but the pieces that we felt were the most difficult for us is a particular one we have difference with customers. In the past any differences or disagreements would be dealt with in the arbitration court, which means that you would have more professional amongst each other.

Now, in the proposals that were submitted, by the previous government or the previous administration, actually litigation was in a very different way, because it was through the -- I would say, the classical jury trials. And you can imagine that creates a whole different dynamic, in particular also for distributors and providers of the product, because in jury trial it's not always obvious what the outcomes are, especially when you are facing a jury that is more sympathetic to customers than it is going to be to distributors or to the Company.

So these are a lot of the modalities which are being worked on, because if these issues are not being addressed, it's going to be quite risky for providers and distributors to get engaged in selling these products. So it's not only about the product in itself, but it's also about all the modalities around it.

I hope that gives you a bit more color.

Nick Holmes - *Societe Generale - Analyst*

Yes, that's great, Alex. Thank you very much. Very interesting and very clear. Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Thank you. Thank you.

Operator

Thank you. And now we'll take our next question from Bart Horsten from Kempen & Co. Please go ahead, your line is now open.

Bart Horsten - *Kempen & Co - Analyst*

Yes. Good morning. I will try to ask a few questions also on LAC DT, which have not been asked so far. First of all, you said that you upstreamed EUR100 million from your operating entities to the HoldCo in the Netherlands. Does that mean that you -- that these entities are well-capitalized enough, or don't you need approval for that from the DNB?

And secondly, just to understand, you made more or less the upstream of dividends to the holding conditional on the review. Does that mean that if the 75% stays intact that you will upstream the EUR100 million, or are there still other conditions? And even if it would be lowered to below 75%, would you still be able to upstream dividends?

My second question relates to the margin development in the US. I see quarter-on-quarter an improvement of your margins in retirement plans, variable annuities and mutual funds. Is it fair to assume that these improvements, or these relatively higher levels will continue into full year 2017 and beyond?

And my final question, if I may, relates to the question earlier asked by Nadine on the reinvestment yield. Could you indicate at what level of US treasury yields you would be at breakeven on the reinvestment yield versus your back-book yield? Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Yes, Bart, on your first question, it's, I think, quite obvious that if we would effectively upstream a dividend from operating companies in the Netherlands to the holding of the Netherlands, that you can assume that these operating companies are well-capitalized, otherwise we'd not have done that.

On the second question, again, I'm going to repeat what I said. We want to do the review first. We want to have a comprehensive review. It includes a number of other factors. So I'm not going to make any speculation, or any further comments on what level of LAC DT we will or we will not pay a dividend. I'm not in a position to do so.

In terms of margin development, yes, you're right, and I'm pleased you're noting that, that effectively you see an improvement in the margins. And that is a result of really two things.

First of all, it's our focus on profitability. As you know, we have always insisted on a disciplined approach on profitability. We do not want to sell products if they don't make sense for our customers and don't make sense for us.

And secondly, of course what is now coming through is the -- I would say the expense reduction program, the hard work on expense reductions, which is effectively now also improving the margins. So we have a 60-basis points margin on variable annuity. That has improved from the previous quarter and we believe that that is a reasonable -- it's a reasonable base case to assume, going forward.

And in terms of reinvestment yield, I mentioned that earlier, I think, to Nadine. Our current new money investment yield is 4.2%, while our book is 4.7%, so there's a 50-basis point difference.

Bart Horsten - *Kempen & Co - Analyst*

Yes, I know that, but could you flag what do you need in terms of rate movements in the US to get to that same level? Would that be a 50-basis point increase in the treasury yields?

Alex Wynaendts - *Aegon NV - CEO*

Yes, well, as you know, we invest in a book which has a lot of different categories. So assuming the spread doesn't change, you would need 50 base points in treasuries, but that could be lower if the spread increases, or higher. So you need to look at the combination. It's spread plus treasury.

Bart Horsten - *Kempen & Co - Analyst*

Okay.

Alex Wynaendts - *Aegon NV - CEO*

But we -- I think the point is we're pretty close now. And we've never been so close since a long time.

Bart Horsten - *Kempen & Co - Analyst*

Okay. Good to hear, thank you.

Alex Wynaendts - *Aegon NV - CEO*

Thank you.

Operator

Thank you. And now we'll take our next question from Andy Hughes from Macquarie. Please go ahead, your line is open.

Andy Hughes - *Macquarie Group - Analyst*

Hi. Thanks so much. A couple of questions on the Netherlands, if we could, and one on the Group cash flow. So on the Netherlands, the inflation assumption has changed. Could you clarify what it's gone from to? I'm just looking at the January movement in the OP yield curve, it's moved quite a lot. It's gone up by 23 basis points over January. I'm just wondering, how does that change things? Because presumably, if you don't own much Dutch government bonds then actually, it should be reasonably positive, given where -- what's happened to the spreads on Dutch mortgages, relative to the OP yield curve.

And an extreme example, if the LAC DT credit was zero, now, you'd obviously drop below the [130] you've guided to for the Netherlands, but is that the end of the world? I mean, you've got a big solvency buffer at the holding Company. You're raising senior debt at 1%. It doesn't sound like even if it dropped to zero you would take any action on the Group dividend. So maybe if you could just clarify that point to -- based on where we are today?

And the final question is on the cash flow bit. So everything sounds better. Cash flow and cost savings coming through. Fee income better. Expense savings. And even a small profit on long-term care morbidity assumptions. And obviously, the cash flow guidance is staying the same. But surely all these items are positive and should come through in the cash flow over the year. So are you ahead of plan, based on this quarter's results on your cash flow guidance, please? Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Yes, Andy, there's not much more I can say really on the Netherlands, you've seen sensitivities, as you said there's many moving parts, the EIOPA curve clearly also has quite an impact, as one of many other items.

So moving to your second question, yes, we're seeing improved morbidity. As I said too, some of it is seasonal. I explained that earlier. We're seeing also improved margins. Yes, over time that is going to be positive on cash flows. That is absolutely true.

Andy Hughes - *Macquarie Group - Analyst*

I mean, just clarifying, what is the inflation assumption that was coming from to? Are you able to say what you're assuming now in inflation in the Netherlands?

Alex Wynaendts - *Aegon NV - CEO*

I will defer to Willem. He'll come back to you. But it's -- the public inflation -- and as you know, that has been something which is being tracked, so I don't know the exact number. But it has increased, actually, recently. And that's why we had a step change in our Solvency II.

Andy Hughes - *Macquarie Group - Analyst*

And it's an active assumption? So if the Dutch implied inflation rate changes then that automatically changes in your assumptions? Or is it something you set periodically?

Alex Wynaendts - *Aegon NV - CEO*

No, we just have to reflect the updated assumptions once every so many -- yes, whatever time. But Willem will come back to the exact number on the inflation.

Andy Hughes - *Macquarie Group - Analyst*

Great. Thanks very much.

Operator

Thank you. And now we'll take our next question from Gordon Aitken from RBC. Please go ahead. Your line is now open.

Gordon Aitken - *RBC Capital Markets - Analyst*

Yes. Morning, thanks. A couple of questions please. One on UK and Cofunds. I mean, you closed this acquisition just on January 1, but you announced it some time ago, back in August. Just wondering what your experience has been since you bought it, or since you announced it, in terms of flows? I mean, you bought that DC book from Mercer in the US. I know Mercer was an institutional book and this is retail, but should we expect a period of transition where some business does leave?

And just related to that, you've talked about a technology upgrade here and advisors have been quite vocal about the fact they hope that you spend more money on the platform compared to the previous owner. Just wondering what the cost of any upgrade would be?

And the second question is on the US business and variable annuities and the impact of DoL. You've talked about the impact on the gross flow, and -- but if we look at the movement in the net -- or the net-net outflow and compare that to the movement in the gross flow, it's clear that the level of gross outflows have also increased. Is DoL having an impact on the in-force book, as well as having an impact on sales? Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Gordon, yes, no, on Cofunds, actually, it's of course early, because we have only got the keys since, I think, January 1, early in the morning. But what we're pleased to see is a number of things. First of all, we're seeing good flows coming and good retention. Actually, good retention is what you were referring to in relation to Mercer, where we have seen some anticipated outflows, this is retail as you point, and we've advisor panels that are positive.

So we've had a very positive I'd say environment and reception by the advisory community, which as you know is the biggest provider business through Cofunds that we came, as the owner of Cofunds, with our commitment, of course, to put our technology, which is well-recognized, at work here.

You're probably also aware that we have this agreement with Nationwide, and that's another positive, because it also brings in inflows. So we've had a good experience. But I again have to say, well, we are only halfway February, so it's too early to come to a final conclusion, but it's going well.

Also the teams are working well together. I think there, as I said to you, they see this as a new -- really a new start and there's a lot of excitement there.

Now, on Department of Labor impact on enforce and sales, I think what we mostly see is an impact on sales. So when sales come down and you have outflows anyway, you have then of course, this impacting the enforce on a longer run. But we do not see a direct impact on the enforce.

Yes? I hope that answers your question.

Gordon Aitken - *RBC Capital Markets - Analyst*

Thank you. Yes, thanks.

Alex Wynaendts - *Aegon NV - CEO*

Yes. Thank you.

Operator

Thank you. So, we'll take our last question from Steven Haywood from HSBC. Please go ahead, your line is now open.

Steven Haywood - *HSBC - Analyst*

Good morning. Thank you, Alex. You mentioned the EUR500 million of capital that's freed up in the UK. Could you say to us what proportion or what is available to shareholders, to be upstreamed from the UK business here?

And then on the implementation of the fiduciary rules, have they actually been delayed, or are they still being part implemented from April 2017? And obviously, on January 1? Or is the review going alongside the implementation stage? Any update there will be quite helpful, thanks.

Alex Wynaendts - *Aegon NV - CEO*

Yes. No, what I did mention is the freeing up of capital for this -- for the transaction. But wait -- it doesn't mean that whole amount is available, because you need to look at your starting points.

I'm not going to give you a number now about the amount of capital that is available. As I said, we will see what the overall capital position of the UK is after we've completed the Part 7 and then, obviously, upstream excess capital that is available for upstreaming.

And on the DoL, yes, we are -- our base case is still implementation in April, so we're working towards it and are prepared for implementation in April. And if rules or things are changed, then we'll have to see. But our base case is still, we need to get ready for implementation in April.

Steven Haywood - *HSBC - Analyst*

Okay. That's very helpful. Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Thanks. Thanks, Steven.

Operator

Thank you. And as there are no further questions at this time, I would like to turn the call back to Mr. Alex Wynaendts for any additional or closing remarks.

Alex Wynaendts - *Aegon NV - CEO*

I would like to thank you all for participating and for the great questions, and have a great day, and have a good weekend later today. Bye-bye.

Operator

Thank you. Ladies and gentlemen that will conclude today's Aegon Q4 results analyst and investor conference call. Thank you for your participation. You may now disconnect.