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# EDITED TRANSCRIPT

AGN.AS - Q1 2014 Aegon NV Earnings Conference Call

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## CORPORATE PARTICIPANTS

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**Ashik Musaddi** *JPMorgan - Analyst*

**William Hawkins** *KBW - Analyst*

**Michael van Wegen** *BofA Merrill Lynch - Analyst*

**Maarten Altena** *Mediobanca - Analyst*

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Aegon first-quarter 2014 results call on May 15. (Operator Instructions). I will now hand over the conference to Willem van den Berg. Please go ahead.

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

Good morning and thank you for joining us for this conference call on Aegon's first-quarter 2014 results. We're very much aware that this is a busy day for you as many companies are reporting at the same time, and therefore we'll keep it short. 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.

Now our CEO, Alex Wynaendts, will share his views on the highlights of this quarter's performance, and our [CFO], Darryl Button, is joining him to answer your questions. Alex, please share your thoughts.

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### Alex Wynaendts - Aegon NV - CEO

Thank you, and good morning, everyone. I will indeed provide you this time with a very short overview of our first quarter before we can go straight into Q&As.

This quarter we have again delivered a strong set of results, maintaining the positive momentum we've been seeing in the previous quarters. Underlying earnings were strong as a result of further growth of our business and supported by high equity markets and lower financing costs.

Earnings from the Americas included seasonal unfavorable mortality, which has been a common theme across the US life industry this quarter. The impact amounted to EUR20m, but was offset by strong results from our other units.



The highlights this quarter are strong growth deposits, which increased by 35% and were higher in each of our business units. US pension deposits were up strongly, of plan takeovers, growing employee participation and higher contributions.

Our US variable annuity deposits also increased substantially. I am particularly pleased to report that quarter 60% of our variable annuity deposits were invested in Aegon managed funds.

In our asset management business we achieved exceptionally strong retail fund sales in both the UK and China.

But deposits were affected by two exceptional items. Following the change in regulation in Poland we have had to transfer EUR1 5b in pension fund assets to the Polish government. And secondly, one of our institutional clients in the UK replaced a EUR3b low-margin overlay program by a much higher-margin but smaller investment mandate.

I am convinced the high level of sales we are seeing this quarter is a result of the ongoing improvements to our products, our service levels and operation.

Consistent with our strategy, we continue to execute on our objective to reduce outstanding debt. We will achieve our objective to reach a leverage ratio of 26% to 30% and a fixed charge coverage of 6 to 8 times by the end of this year. And, as a result, our funding cost will further decrease in 2014, which improves our cash flows and has a positive impact on our return on equity.

At the same time we continue to make the necessary investments to accelerate the use of digital technology in order to get closer to our customers while enhancing efficiencies across our organization.

The recent launch of Retiready, our direct-to-consumer offering in the UK, is a good example of this. Retiready's online proposition allows customers to easily measure their retirement readiness and provides them with simple solutions to help customers reach their retirement goals.

I'm also proud to share with you the good results of Aegon's global employee survey, which showed that employees are more engaged with our strategy and more empowered to contribute to the Company's success. Actual survey results continue to improve compared to previous years, and Aegon is now consistently tracking above the financial services sector and at the high end of the high-performance norm for enablement.

Having engaged and enabled employees is at the heart of our strategy to transform our Company. And this is why our management team is excited by the prospects for our business going forward. We believe that the benefits of the actions we have taken, together with the strong quarterly results and the strength of our capital position provides us with a clear competitive advantage in our chosen markets, allowing us to gain new and retain existing customers that place their trust in Aegon.

Before we go into Q&As, I would like to say a few words on Solvency II. Although it has now become clear that Solvency II will be implemented by January 1, 2016, there are still many key details on implementation measures that need to be clarified before we can share with you more numbers. During our analyst and investor conference which we'll be hosting in New York on June 25, we will provide you with an update. Please scan the QR code on slide 6 for more detailed information on the A&I conference and to register, or contact Investor Relations.

We look forward to seeing you there. And we're now happy to take your questions. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Farquhar Murray, Autonomous.

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

Morning. Thanks for being brief there actually. Just two questions, if I may. Firstly on the unfavorable seasonality, a figure of \$27m in the first quarter. Is that benchmarked against normal experience in 1Q? I'm just trying to understand whether we should expect that \$27m to roll out Q on Q or possibly actually a bit more given that we actually get a seasonality component on top of it.

And then secondly, on the normalized free cash figure of EUR305m for the quarter, within this you've made a positive adjustment of EUR22m for one-time items. Can I just confirm that that one-time adjustment is essentially normalizing to the AXXX solution? And when might we expect that solution to actually come through in the actual figures? I think last time you were indicating some point in 2014. I just wondered where you were there. Thanks.

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

Yes. Hi, Farquhar. It's Darryl. Let me respond to those. On the mortality, no, it's not benchmarked to seasonal Q1 expectation; it really is benchmarked relative to our level of expectation for the year. So we look at that \$27m as the seasonal component, so I'd look for that to actually reverse as we go throughout the rest of the year, if our hypothesis on the seasonality is correct.

On your second question on the operational free cash flow, yes, we have tried to normalize out the additional strain that comes from the XXX business in the US. And we are looking to do some financing here in the second quarter, and so that should come into our operational free cash flows in the second quarter when we get that financing done.

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

And just as a follow-on there, once you get that solution, do we get the backlog coming through as well?

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

Yes. So basically we've been experiencing somewhere around 30m, 40m per quarter of additional strain and we have a backlog of about, let's call it, eight quarters that we're looking to finance, and so we should see that come through when we get that done.

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

Okay. Great. Thanks a lot.

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

Yes.

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**Operator**

David Andrich, Morgan Stanley.

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**David Andrich** - *Morgan Stanley - Analyst*

Hi. Good morning. Two questions on my side. First of all, I was just wondering if you could give us a brief update on the progress in the UK business, particularly related to free cash flow expectations for 2015.

And I was just wondering in terms of the US business and the at-retirement program, when should we see a clear impact in terms of higher retention and more retained -- yes, reduced outflows?

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

Thank you. On the UK, I think we've been consistent with saying that we are targeting a cash flow -- operating free cash flow in the UK by 2015 of 150m and 200m, and we are on target to achieving that cash flow.

In terms of the US market, at-retirement, what we see is that there is opportunity actually to capture flows from customer that retire and maintain them in our system. We've put in place a number of initiatives, a number of organizational changes. And I think that what we're seeing right now is that around a bit lower -- less than 10% of maturing retirement money stays within our system. And it's obvious that we are also targeting to increase that percentage from 10% to at least 30%.

You will get much more around this theme in the A&I conference which we'll be holding in New York. Actually it will be very much central to what the strategy of the US will be. I really hope you'll be there so we can give you more color and much more numbers there. But this is at the heart of our strategy.

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**David Andrich** - *Morgan Stanley - Analyst*

Great. Thank you very much.

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**Operator**

Ashik Musaddi, JPMorgan.

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**Ashik Musaddi** - *JPMorgan - Analyst*

Can you give us some color around what's happening with equivalents? And what's [D&B's] view on equivalents? Are they happy for you to apply equivalents, assuming EIOPA allows for that? So that's the first thing.

Secondly, on your UK new business value under market-consistent basis declined significantly and it keeps on declining. So can you give us some color on the absolute basis-point margin that you're getting on the new flows on UK business? These questions will be very helpful. Thank you.

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

Ashik, let me take the first question on equivalents. As you know, this has been a theme which we have been discussing with you many times. For Aegon it's clear that we have the need for equivalents. It is very clear also for our regulator. And if you now see the progress which has been made between European Commission, European Parliament, EIOPA, it is clear that equivalents is going to be accepted and is going to be part that will be looking at Solvency II going forward.

Now there are still a number of details to be worked out. We need to understand exactly the implementation of the deduction and aggregation. But we're working through this with our regulator, and our regulator is clearly supportive and understands the need for it.

So I'm confident that we will come out with a -- within whatever period, next month or certainly hopefully well ahead of implementation, with clarity around how we will implement this equivalents. But there is no doubt that that will be put in place.

**Ashik Musaddi** - *JPMorgan - Analyst*

Okay. Thank you. That's very helpful.

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

Darryl on the UK?

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

Yes. Ashik, it's Darryl. On the MCVNB for the UK, it's really a couple of things going on right now. We have some negatives coming into the calculation from auto-enrolment right now, so -- which is effectively as we're going into auto-enrolment and looking at some of the smaller amounts that we're going to have to process and put onto the schemes that it's actually come out at a negative value. And that's a short-term phenomenon and I would almost call it an adjustment. It's obviously a downward economic adjustment to some of the existing schemes that we have. So we have to work through that period. And that's going to be with us in the short term.

The other issue is really just the platform, and we're just not at scale yet on the platform. So on the margin, we don't use greenfield status or the like, if you will, which means that we use the full expense base when valuing the business that's going on the platform. So until we get up to scale, the margins are going to be really small.

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**Ashik Musaddi** - *JPMorgan - Analyst*

No. I agree. That's clear that you have up-front cost and all that's why margins are bit depressed. But how should we think about your absolute revenue margin? What basis points are you charging on your auto-enrolment or on your platform? So that -- any color on that would be good. Thanks.

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

Yes. Well on the platform itself, we're in the 40 or 50 basis points' range on the revenue. Obviously the market is shaking itself out with all the changes that we've gone through recently. So I would say it's still a market that's finding itself on that front and we still continue to optimize as we see what competitors are doing. So that's where we're at now and we continue to look at that going forward.

And then in terms of bottom-line margin, it's really a function of the scale that I mentioned before. And it's really going to be another two to three years before we get the platform to where we need it to be from a scale perspective.

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**Ashik Musaddi** - *JPMorgan - Analyst*

Okay. That's very clear. Thank you.

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

Yes.

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**Operator**

William Hawkins, KBW.

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**William Hawkins** - KBW - Analyst

Hello. Thank you very much. And thanks from my side for being brief at the open as well. Two questions on the UK, please. Your platform funds were GBP1.6b versus GBP1.3b. But can you just tell us what was the flow impact in that increase from the first quarter?

And then secondly, could you give us any kind of discussion of what you see as being any potential impact from the tax changes that have been announced through this quarter? Is that generating any risks or any opportunities for you or is it just business as usual? Thanks.

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**Darryl Button** - Aegon NV - CFO

Yes. On the -- hi, Will. On the platform flow, we are running about GBP100m a month, which means it was about GBP300m for the quarter in the platform. And I apologize but I missed your last question on tax, I think it was.

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**William Hawkins** - KBW - Analyst

Yes. Just with the tax changes having a big impact on the wider annuity market, I'm wondering if that's having any impact on you guys in any parts of the business in the UK.

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**Darryl Button** - Aegon NV - CFO

Well, yes. So in terms of the overall budget change in terms on the annuity, from annuity strategy perspective, we think that overall annuity sales are going to be down probably in the neighborhood of 50%. We're seeing something in the neighborhood of -- I think we saw 20%, 30% now, but we think that that's going to drift up to 50% down by the end of the year.

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**William Hawkins** - KBW - Analyst

And it doesn't make you guys think that there's anything further that needs to be thought about the strategy? You're still happy with your strategy?

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**Darryl Button** - Aegon NV - CFO

Well obviously from a strategy perspective, we think a lot of these flows are going to come over into the drawdown part of the market. And that's where the [old] platform and the drawdown strategy that we have on the platform, and we are working on another drawdown product to put on the platform next year, a guaranteed drawdown product to go with the drawdown product that we have now.

So we think we're very well positioned and will be positioned for that switch of consumer flows that are going to happen. So it's really in the heart of our strategy. So we feel okay with the changes in that regard.

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**William Hawkins** - KBW - Analyst

Okay. Cool. Thank you.

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**Darryl Button** - Aegon NV - CFO

Yes.



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**Operator**

Michael van Wegen, Bank of America-Merrill Lynch.

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**Michael van Wegen - BofA Merrill Lynch - Analyst**

Yes. Morning. It's Michael van Wegen from Bank of America-Merrill Lynch. I'm afraid I have to go back to the UK as well, two questions there or three. First of all, your persistency in the pension business in the UK recovered very well in Q1. I guess it's now closer to normalized levels. Is that something you expect to continue or what's the risk of seeing again volatility like we've seen in Q4? And that's question number one.

Question number two on UK cash flow, can you disclose what the cash flow for the UK operations was in Q1, both as an actual number and if you adjust for things like securitization, etc.?

And the third question would be on your strategy in the UK. You pointed out the 40- to 50-basis-point fees on the platform business. I think that in the business plan it's assumed that the overall margin doesn't decline as much, and that's partly driven by, for example, better margins on drawdown products. Can you talk a little bit about how the margins on drawdown products compare with the normal platform business and how you see AUMs developing for both the platform business and the drawdown product? Thank you.

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**Darryl Button - Aegon NV - CFO**

Yes, Michael. Let me take the first two questions and Alex can take the third. The persistency in the UK, yes, it has come to what we think is a more normalized level. So obviously it will still fluctuate a little bit from here. But I think it is a more sustainable number that we're seeing and so we'll continue to watch that throughout the year.

UK cash flow. We're not currently disclosing the cash flow by pieces. What I can say is, back to what I've said earlier, is that I expect the UK cash flow to be relatively small this year in 2014. And that's a function of the investments we continue to make into Retiready and the platform, combined with the securitization, combined with the lack of scale on the platform and the expense reduction programs we have underway. So 2014 I expect to and we are seeing a relatively modest small contribution from the UK and I expect that to step change next year.

On the -- Alex do you want to do the --?

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**Alex Wynaendts - Aegon NV - CEO**

Yes, on the strategy in the UK, Michael, in response to one of the previous questions about what are the current margins we're making on the platform, keep in mind that we are -- now have been very much focusing on the workplace, so that's corporate pensions. And we've been focusing on what we call advised customers, which is the higher end of the market. That also explains why the margins on the platform are between 40 and 50.

What is now going to kick in with Retiready is much more the retail part of it, the non-advisor part. And it's clear that the margins in that segment are significantly higher. So when you look over time at the margin on our platform assets, what you need to have -- to keep in mind is the different parts of the business.

So the workplace, the high end of the market, advice, where we have intermediaries, and the growing part of our business that is through the retired platform, the non-advice retail business, which will come from our back book, customers that are [the orphan] customers, customers that have been part of our business for many years but have been -- not been receiving the kind of service you would expect right now. That will be moved on the platform, but clearly at much higher margins. I think you should be thinking in the range of 80 basis points, which, as you will understand, compares very favorably with very often the kind of margins there now being paid right now.



What we therefore also hope is that not only we're converting business from the back book into the new Retiready on our platform and attract new customers, and that is also -- would be in the 80% range. So at the end, the mix will determine what spreads and what margin we'll be getting on the business. And I believe the mix also will be determined very much by how successful we are with Retiready.

We've launched that, and I'm sure you will have seen it. It's been a success in terms of launch. We've seen now the first customers but we need a bit of time to get to see the flows and to see how much really are we going to get on that platform. And that will determine, at the end, the overall mix of the business and therefore the margins. But that's our strategy going forward in the UK.

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**Michael van Wegen** - BofA Merrill Lynch - Analyst

Thank you.

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**Operator**

Maarten Altena, Mediobanca.

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**Maarten Altena** - Mediobanca - Analyst

Yes. Good morning, gentlemen. Two questions on innovations, and the first one basically following up on the UK. As you're rebuilding your UK franchise gradually though, profits remain subdued, so to say. You currently have some GBP1.6b of platform assets under administration, whereas I guess you need about GBP10b to be breakeven. So could you comment on the expectations of the trajectory, how and when to achieve the breakeven level, and whether you see that achieved purely organically or maybe via acquisitions?

The second one is on innovations in the Netherlands as you have retail initiative Knab, which does not fully seem to meet expectations. So I was just wondering how much money are you willing to spend on this and what other innovations are you working on in the Netherlands? Thanks.

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**Darryl Button** - Aegon NV - CFO

Yes. Let me just -- on the UK I'll just repeat what I said earlier. It's going to be two to three years is our expectation to get to scale on the platform, which we put at somewhere in the GBP8b to GBP10b range that we need to get to.

Alex, I think -- do you want to address this?

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**Alex Wynaendts** - Aegon NV - CEO

Yes, on the Netherlands. By the way, Maarten, I hope you have become a customer of Knab because then you probably wouldn't have asked this question. What we see is that we are gaining momentum with Knab in terms of customers. What we see in particular, and that's pleasing, is that those that are customers are very satisfied with it. We've now launched recently a new initiative and to focus on self-employed, the payers for the Dutch people, self-employed. And that actually is gaining quite a lot of traction, which is not surprising because often the self-employed are more -- do more things themselves, also financially. And we see actually quite some traction in that part of the market.

Having said that, we obviously would have preferred and we would have loved to see the business accelerating quicker and getting much more new customers than what we see right now.

On the other side we see some good deposits coming to Knab. It is taking time. But what's the most important thing for us is that it positions us in the market as being an innovator, as being a new bank, as being a bank that is really looking after the interests and the customers in the way the



customers want to see. And it will take a bit of time. But we are absolutely confident that this is the right concept. And we're seeing now with the expansion of our scope in the market to the self-employed, we see actually quite some traction.

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**Maarten Altena** - *Mediobanca - Analyst*

Okay. Perfect. I'm not yet a Knab customer, but you've definitely got my attention.

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

[Strongly interested, yes].

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**Operator**

William Elderkin, Goldman Sachs.

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**William Elderkin** - *Goldman Sachs - Analyst*

Thank you. Good morning, everybody. A couple of questions. First of all on the Dutch business. The commentary on the pensions earnings referred to improved margins on mortgages, I think. I know this can move around. I'm just wondering, is that level of earnings something we can regard as sustainable?

And secondly, staying with the Dutch business, when can we expect to see an improvement in those non-life earnings coming through?

Second, back on the UK, I'm afraid. You've quantified the effect of DWP requirements at GBP20m to GBP25m on an annual basis. At what point would we expect to see that effect actually coming into reported earnings?

And then finally, just given the change in the accounting policies, is that underlying model margin guidance you've provided in the past, is that still valid or is that something that needs to be updated in due course?

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

Darryl?

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

Yes. Hi, William. Let me see. I got the first three for sure. I might get you to repeat the fourth one. On the pension earnings in the Netherlands, yes, I think it is sustainable. We've done some ALM repositioning on some of the assets. A few more of the mortgages have worked their way into the portfolio backing the pensions, and I think that has created the additional earnings. And I do look at that to be a sustainable number going forward.

You asked about non-life in the Netherlands. I think in terms of turnaround, there it has been -- it has admittedly been a struggle and we have done a lot of work to re-underwrite and re-price that business. Unfortunately we're still seeing some of the residual claims come through from the storms and the fires that we consider to be maybe a little more one-off, if you will. And those did come into the results in the quarter. So I still look for improving results from the Dutch non-life business on the back of re-underwriting and re-pricing.



You asked about the UK DWP GBP20m to GBP25m, when? When it's effective in 2015, so April 2015, I think it is, so -- is when we have to basically implement that. So this'll be a second half 2015 effect that we'll start to see come through the numbers. Between now and then we'll obviously be sharpening our pencil and fine tuning this number. But GBP20m to GBP25m is our best estimate at this point.

Fourth question, I apologize. I missed it.

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**William Elderkin** - *Goldman Sachs - Analyst*

Just the question was you've given some model margin guidance, particularly for the US business in the past. I was just wondering, given the change in accounting policies, are those model guidance levels still valid or is that something that needs to be revisited?

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

We are taking a look at that right now. We'll probably talk about it at the A&I in June. I do know that on the VA side, a few -- because the VA business is growing and the new DAC policy we have, that does create some additional earning strain that wasn't there before. So that's why the margin is a little bit lower this quarter at, I think, 75 basis points, somewhere in there. So we're taking a look at that. That's a function of growth and the new DAC policy.

On the pension side, we are seeing a bit of a trend on the pension side in the US for some of the larger cases are coming in on more of a per-participant charge as opposed to an AUM charge. That puts a little downward pressure on the margin, if you will, but obviously doesn't impact the earnings growth trajectory. So the US is going to address that issue as well and the right way to look at the margin metrics in there. And we're going to address that in June as well.

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**William Elderkin** - *Goldman Sachs - Analyst*

Thank you.

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**Operator**

Nick Holmes, Societe Generale.

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

Thank you very much. Yes. Two questions. First one is on the US. With your very strong growth in variable annuities, I wondered, could you tell us a bit more about how your product compares with the competition? And I guess what I'm getting at is that we've seen some of the larger players backing away and I wondered, is your product now looking relatively more aggressive? Or would you say that it's still at the lower end of the risk spectrum, which I think is something that you've been quite proud of?

Then the second question is on the UK. Just I think we've covered annuities, but I wondered if you could comment on the pensions cap and also the proposals for examination of run-off business, whether there'll be any effect from those. Thank you.

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

Nick, on the US, I'll be brief here because we will address this in really much more detail in our conference in June, and we really hope to see you there. What we see is that the market actually has been attractive for us. We've been talking about returns on equity close to 20%. And recently we have seen a little bit of pressure, more pressure, but still allowing us to have very attractive returns.

In terms of products and developments, I really would like to defer to June so you get a complete picture. But you know our strategy. We've been consistent in ensuring that we get products that are right for our customers, but also at the same time are the correct risk profile for Aegon. And we will continue to do so.

In terms of UK, is there anything you want to add on what you just said, Darryl?

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

Well it is -- the pension cap is the DWP issue that I mentioned earlier, Nick, so our corporate book does have some exposure to these caps. And we have sized that at an earnings impact of about GBP20m to GBP25m per year, effective April of next year. But we'll have -- as I mentioned before, we're still doing some -- as we get closer to implementation -- there's many moving pieces behind it as well. We'll update our guidance as we go, but that's our best number for now.

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

And is there any quick comment on the run-off proposal? The FCA has said that it will look at run-off books, look at treatment of customers. Any concerns for you in that respect?

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

No. It's too early for us to comment on that. We don't think that there's an issue, but obviously we wait and we see and we will participate in the review. And we will update as we know more. But at this point we don't think that there's anything to communicate.

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

That's great. Thank you very much.

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**Operator**

Francois Boissin, Exane BNP Paribas.

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**Francois Boissin** - *Exane BNP Paribas - Analyst*

Yes. Good morning, gentlemen. Two questions, please. First one on the Dutch pension fund, their buy-out market. Can you give us your views of what's going on there? And maybe can you elaborate a bit on the past deals that you might have achieved and the pricing conditions?

And the second question is on Solvency II and economic solvency. When do you guys plan to disclose economic solvency or any [property] for Solvency II numbers? And are there any areas of concerns currently regarding the calibration of the solvency capital requirement? Thank you.

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

Francois, thank you for your questions. In relation to the pension fund business, as you know there is a big pipeline in the sense that there's many companies that have pension funds. And clearly those pension funds are too small or it's not sustainable for them to run them on an independent basis. We see clearly an improvement in the market. And that means that pension funds therefore are getting to the levels that they can effectively be transferred and transfer the [liabilities] to insurance companies like ourselves.

We are well positioned in that sector. We have a strong balance sheet; I think it's important too. And as such I think we'll continue to see the flow. But these flows are not regular so you'll see certain quarters get bigger contracts, other quarters less. It's not going to be regular. But the trend is there.

And we are well positioned not only in the transfer of liabilities, but equally strongly positioned in the whole what we call PPI business, which is effectively a kind of 401k, and that's probably the best, easiest comparison for all of you, part of the pension sector which is purely a defined contribution and where the investment risk is for the account of the employees.

That's a segment where we are participating also in. And we see continuous good flows in there. And we'll continue to report that. So I'm pretty optimistic on that part of the business. As you know, there are not that many players active in that market. That means therefore we're also able to maintain our pricing discipline, and that's equally important.

In terms of Solvency II, I made a --.

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**Francois Boissin** - *Exane BNP Paribas - Analyst*

Sorry about that, just a follow-up question on the pension fund buy-out. Do you disclose any figures on deals you achieved in the past 12 months?

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

No, we are not explicitly giving you deals. In some cases deals are important for the Company and then there is a press release. But in general we do not give the names of the companies. What I was trying to say is that there is a healthy flow. There is a big pipeline.

But again, these transactions are not taking place on a regular basis quarter by quarter. It's somewhat a bit lumpy. But there is a good flow. And more important, as I said, we are able to maintain our pricing discipline. And that's important. And that's because the market effectively is only limited to a very few number of players.

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**Francois Boissin** - *Exane BNP Paribas - Analyst*

Okay. And in terms -- so pricing discipline in terms of IRR or in terms of -- is this like 10%, 12%? What's your threshold there?

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

Darryl, do you want to comment on this?

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

Yes. Our pricing threshold is we have economic pricing and we look for 1,000 basis points over swaps on a pre-tax basis, and that's our minimum threshold. And then we look to actually get a spread over and above that. But that's our walk-away number.

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

Yes. And that gets reflected in our MCVNB, which is positive on the pension business. I think that's an achievement actually. It's not always been the case and the market has been very aggressive in the past. But that -- we see now that we're able to maintain our pricing discipline.



In terms of Solvency II, unfortunately there's not much more I can say than I've said in the introduction. The one thing we now know is that we should count on January 1, 2016. We do know there's a lot of outstanding details and implementation. We also know that these details could have quite a varying impact of which we are not at all, at this point in time, clear about what the ranges are.

I think that's also clear to European Commission on the one side, Parliament, the EIOPA, that it's important to come to conclusion relatively soon if you want to be able to implement this at January 1, 2016.

The important one that was raised earlier for Aegon obviously is we need to get clarity around how we implement deduction aggregation in order to get equivalents for the US. But again, with all the stakeholders involved and our regulators understanding the importance of it, I have every confidence that we'll get to a workable solution within the timeframe.

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**Francois Boissin** - *Exane BNP Paribas - Analyst*

Okay. That's helpful. And in terms of calendar, do you expect to bring up new numbers to the market in H2 2015, or do you expect 2016 is the first -- is the earliest we can expect numbers from you guys?

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

As I said, Francois, we will, based on what we know at that time, try to give you a bit more clarity on what we'll be doing in our June conference. Today is too early. So in June, hopefully we'll be able to say more. But again it depends on others, not so much ourselves. We'll give you more clarity then.

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**Francois Boissin** - *Exane BNP Paribas - Analyst*

Okay. Thank you very much indeed.

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

Thank you.

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**Operator**

(Operator Instructions). [Aki Khan], Dow Jones.

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**Aki Khan** - *Dow Jones - Media*

Yes. Good morning. One question following up on the price discipline. Could you explain to me what this entails, 1,000 basis points over swaps?

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

Yes. So when we look at the cost of capital that we build into our economic pricing models, we price everything on an economic basis, which means we use forward curves and swap curves. We don't use rising interest rates and we don't use long-term economic or long-term equity return assumptions. When we make market assumptions we use forward curves.



When we build in cost-of-capital margins into the risk components of our pricing, we build in cost of capital equal to 1,000 basis points or 10% plus swaps on a pre-tax basis. And that represents the floor of our pricing, and that's the basis for our MCVNB reporting. And then we set targets to achieve that or better. So that's what I mean by a floor level. In many cases, in many products, we are able to achieve numbers in excess of that.

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**Aki Khan** - *Dow Jones - Media*

Okay. All right. Okay, thanks.

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

Yes.

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**Operator**

Thank you. That was the final question. Are there any further points you wish to raise?

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

Thank you very much for being in the call. And we also actually enjoyed the setting and short introduction, Q&A's. And we obviously all look forward to seeing you in New York. And have a great day and a busy day. Bye-bye.

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**Operator**

Thank you. This concludes the Aegon first-quarter 2014 results call. Thank you for participating. You may now disconnect.

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