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PRESENTATION

Operator

Good-day and welcome to the Aegon third-quarter results analyst and investor conference call. Today's conference is being recorded. And at this time I would like to turn the conference over to William. Please go ahead,

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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 third-quarter 2016 results. As always, we will keep this presentation short, leaving plenty of time to address your questions.

We would appreciate it if you take a moment to review our disclaimer on forward-looking statements, which is at the back of our presentation.

After the prepared remarks our CEO, Alex Wynaendts, will be joined by our Chief Financial Officer, Darryl Button, to answer your questions. I'll now hand it over to Alex.

Alex Wynaendts *- Aegon NV - CEO*

Thank you, Willem, and good morning to everyone. Thank you for joining us for our 2016 third call -- earnings call. So, overall, we are pleased with the progress we made this quarter. And I would like to begin by providing you with a brief overview of the key elements.

As you are aware, we review actual and economic assumptions annually, in the third quarter. This year the review led to a charge of EUR81 million, which was primarily related to our long-term care business in the US. Given this limited impact, we report a strong net income of EUR358 million.

Our underlying earnings were supported by the benefits coming through from our successful expense-savings program. These were, however, offset by the impact of adverse US-mortality experience and the impact of low interest rates.

Despite volatile markets, our Solvency II ratio remained stable, within our guided target range at an estimated 156%. At the same time, we continue to have strong sales from our deposit businesses.

Let's now look at our underlying earnings for the quarter in more detail on slide 3. As you can see, underlying earnings before tax amounted to EUR461 million. Earnings were positively impacted by growth in a number of our fee-based businesses and the continued strong progress of our expense-savings program, as expenses in the US decreased by approximately 8% year-on-year.

These positives were, however, more than offset by adverse-claims experience, lower reinvestment yields, and the divestment of our UK annuity book. Claims experience in the Americas was driven by adverse-mortality experience in our universal life business. And I will discuss our recent mortality results in greater detail later in our presentation.

Similar to last quarter we experienced lower reinvestment rates, which impacted earnings by EUR23 million, as interest rates declined further. As you can see, earnings from Asia and asset management were lower. The results last year included a favorable intangible adjustment in Asia. And in asset management expenses were up this quarter as we're investing in the future growth of our business.

Finally, earnings were impacted by the strategic disposal of our UK annuity book.

Let me now run you through how we successfully reduced our expenses in the first nine month of this year. I'm pleased to share with you today that we have already achieved annualized expense reductions of EUR87 million, exceeding our full-year target 2016, of EUR56 million. And that we are accelerating our efforts towards reaching our target of EUR200 million by the end of 2018.

In the US we continue to see the benefits of our voluntary-separation center plan, which contributed to the significant savings achieved this quarter. The result; the run-rate savings in the US increased to $75 million, or EUR67 million, for 2016. In the Netherlands and at the holding we are also well on track to achieve the planned expense savings. And we continue to make good progress towards our 2018 target.

Here, I would like to stress again that our expense-savings program is being executed in such a way that we maintain our high customer-service levels, while continuing to invest in digital solutions.

I would now like to turn to slide 5, which illustrates the development of our recent claims experience. As I mentioned earlier, this quarter we experienced adverse mortality in our US universal life business. This [core] adverse result is [close to weigh] two standard deviation events in which the frequency and especially the severity of claims of over $5 million were much higher than we would normally expect.

As you can see on the slide, the severity of claims below $5 million has been relatively stable over recent quarters. I would like to remind you here that some volatility in our mortality results is to be expected, which is the result of lower reinsurance coverage, following recaptures in 2014 and 2015.

As we have indicated before, mortality results are expected to fluctuate by two standard deviations, which equates to plus or minus $50 million in one out of every 10 quarters.

I would now like to move on to the next slide and discuss our net income. I'm pleased with our net income of EUR358 million this quarter, a significant improvement over the same quarter last year. As I have just highlighted, we reported underlying earnings of EUR461 million, while non-underlying earnings in Q3 totaled a positive EUR48 million.

Fair-value items, which amounted to an EUR84 million gain, benefited from credit-spread tightening and favorable alternative investments in the US, as well as positive real-estate revaluations in the Netherlands. Spread markets continue to be benign, resulting in net recoveries of EUR6 million for the quarter.

Other charges, which amounted to EUR72 million, include assumption changes, model updates and other items. I will now provide you with more details on these following slides.

These core-assumption changes and model updates amounted to an EUR81 million loss. These items were previously reported across underlying earnings, fair-value items, and other charges. As of this quarter, we report all assumption changes and model updates in other charges. We have made this change to improve the transparency of our results.

The main driver for the loss following the annual assumption review was our long-term care business in the US, where we recorded a loss of EUR100 million. While we continue to take a number of management actions in this line of business, the review led to a charge driven by experience updates, including morbidity, termination rates and utilization assumptions.

For the other businesses lines in the US assumption changes and model updates largely offset each other, while in the Netherlands, model updates related to the guarantee provision resulted in a benefit of EUR28 million.

From a capital perspective, the positive effects from assumption change in the UK and the Americas were offset by the implementation of updated longevity assumptions in the Netherlands. Overall, these have an immaterial impact on our Solvency II ratio, as well as on our capital generation, going forward.

Let me now turn on slide 8 to our capital position for the Group. Since Solvency II came into force our ratio has been well within the target range of 140% to 170%. And at the end of the third quarter stood at an estimated 156%. The capital generation this quarter contributed 2% to our Solvency II ratio. This increase was offset by 2016 interim dividends.

Assumption changes and model updates had an immaterial effect on the capital position of the Group, as I highlighted on the previous slide. Market impacts were negative this quarter, which was mainly due to the impact of lower interest rates and credit spreads on Aegon's own-employee pension plans.

In the Netherlands the lower benefit from the volatility adjustor, which declined from 18 to 10 base points, also negatively impacted the ratio. This was offset by management actions.

Let me now turn to our holding excess-capital position which remained stable at EUR1.1 billion for the quarter. The holding received EUR300 million in dividends, as the Americas accelerated part of their final 2016 dividend, in addition to regular quarterly dividend from asset management.

These remittance offset the neutralization of the 2015 final stock dividends and the payment of the 2016 interim cash dividend of EUR0.13 per share paid in the third quarter.

Let me now turn to slide 10 where we will discuss our sales for the quarter. We are pleased with our strong gross deposits in retirement plans and asset management, which increased 19% year-on-year, to nearly EUR25 billion. The retirement plans' gross deposits increased mainly as a result of higher takeover and recurring deposit in the US.

In asset management gross deposits were also higher, as a result of strong sales at our Chinese joint venture, as well as higher inflows in the Netherlands and the Americas. Net in -- outflows, however, amounted to EUR2.3 billion, mainly driven by the block of business acquired from Mercer. These outflows are in line with anticipated [less] behavior after the acquisition from Mercer's retirement business and are reflected in the purchase price.

Elevated outflows on the acquired business are expected to continue until early 2018 as the business is being converted onto our platform. Customers that have transferred to the America platform have provided very positive feedback both in terms of the technology at their disposal and the customer service received.

The result of this acquisition and our ongoing global partnership with Mercer we are very pleased that Transamerica's record-keeping business has just been named at the core record keeper for new Mercer defined-contribution offering in the US. And we anticipate that this partnership will add a meaningful number of retirement-plan customers to our DC platform driving both skill and efficiency.

Accident and health new-premium production declined to EUR218 million, mainly as a result of our decision to exit certain products in the Americas. Finally, new life sales were down 15%, reflecting our continued focus on profitability of sales in the current low interest-rate environment. This is also, in part, a reflection of our strategic shift to focus of fee-based business which I'd now like to take you through on slide 11.

As you can see on the slide, since 2010 we have nearly tripled the percentage of earnings derived from fee-based businesses from 16% to around 44%. Together, these businesses now manage or administer over EUR650 million of assets. Focusing more on fee-based business makes Aegon less vulnerable to the current low interest-rate environment, increases our return on equity, and allows for a more efficient capital management.

This is evidenced by the growth of our free cash flows from our fee-based business, which has significantly increased over recent years. And good examples of our increased focus on fee businesses are the acquisition of Mercer's DC business in the US and the transformation of our operations in the UK. And there we divested our annuity book and acquired Cofunds' and BlackRock's pension business to become the market-leading platform.

To close, on slide 12, I would like to summarize the key elements from this quarter. So far, we have achieved run-rate expense savings of EUR87 million, which is significantly ahead of our 2016 target. The same time, despite volatile market conditions, we have maintained a stable capital position with an estimated Solvency II ratio of 156%.

And we've also been able to maintain a stable holding excess-capital position while returning EUR950 million to shareholders in 2016. I remain confident that we will continue to make significant progress towards our 2018 targets.

As I'm sure you all know, this is the last results call that Darryl and I are doing together, before he leaves Aegon at the end of the month. Darryl has made a huge contribution to our Company over the past 17 years for which I would like to really thank him. And it's been a particular pleasure to serve with him on the Executive Board.

So, unfortunately for the last time together, Darryl and I are ready to take your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We will now take our first question from Ashik Musaddi, JPMorgan. Please go ahead.

Ashik Musaddi - *JPMorgan - Analyst*

Hi. Good morning Alex. Good morning Darryl. Just a couple of questions I have.

One, can you just give us some indication about the Solvency ratio for the local unit? I guess you're not giving the exact numbers, but any sort of indication what has volatility adjusted in done. I mean, is your --? What is the longevity impact on Netherland, etc.? So, some color on that.

And, secondly, can you give us a bit more color on what sort of assumption changes you have done in long-term care? And what is it leading to? I mean, is it just (inaudible) or should we be expecting any sort of further assumption changes? Or do you think it's more or less done?

Because we saw actually this spike in the mortality, as well, recently. So, how should we square up things? Are there more to come? Or do you think it's good? Because, for example, last year you clearly flagged that this model updates, most of them were done. And clearly today we haven't seen any negative impact from that. So, any sort of indication like that for this long-term care business would be good, as well.

Thank you.

And, by the way, really well done today. It was a good set of numbers. Thank you.

Darryl Button - *Aegon NV - CFO*

Thanks, Ashik. It's Darryl. I'll try and take those questions.

Solvency II, we aren't disclosing the local unit capital ratios on the odd quarters anymore, so I'm going to try to stick to that. But just to give you a general feel, the Group ratio is down 2 points. That was largely due to the Netherlands. And it was the predominant issue was in fact the tightening of the EIOPA volatility adjuster. I would put it broadly in the range of 5 to 10 points. And that's probably as much detail as I'm prepared to give.

On the long-term care assumption changes, it was really just claims strengthening. And so we have done a lot of work to take a look and break down the long-term care claims analysis by site of care.

A lot more analysis and detailed analysis went into this years' assumption changes. And it was really the trend that we saw on predominantly termination rates for people that were already on claim. That was the biggest driver. And we were able to break that down by site and that led to about EUR100 million charge, about $110 million charge on long-term care.

In terms of the rest of it you're right. I'll just acknowledge the rest of the model updates and assumption changes have come in pretty low and we're pleased with that. So, it --.

Ashik Musaddi - *JPMorgan - Analyst*

So, with respect to the long-term care, should we be not expecting any more, going forward, based on your current knowledge? Or there could be more coming in, in coming quarters?

Darryl Button - *Aegon NV - CFO*

Well, I mean, we make -- we did a detailed review of -- these are long-term assumptions. We've really put in place claims assumptions now that track with the experience we've been seeing. So, I'm not expecting to have to reopen those.

There are other assumptions, obviously, that make up the book. I think, as you're aware, we are rate-increasing that book and we continue to rate-increase that. As long as we continue to get the momentum that we're seeing on the rate increases I don't see a need to reopen those assumptions.

Ashik Musaddi - *JPMorgan - Analyst*

Okay. That's very clear. Thank you.

Operator

Thank you. We will now take our next question from Arjan van Veen, UBS. Please go ahead.

Arjan van Veen - *UBS - Analyst*

Thank you. If I just may follow up on the Netherlands Solvency position? Now, Darryl, you were very confident at the second quarter to upstream the EUR225 million reduced target for the Netherlands. I'm just curious, given that the Solvency ratio was [154%] at June and you're indicating it's probably reduced 5 to 10 points because of the volatility adjuster changes, whether you still have that confidence.

And if you maybe also could give some color or reaffirmation of guidance as to your total up-streaming of dividends from your various divisions is now EUR1.2 billion, reduced from EUR1.3 billion, at the beginning of the year. So, just if you could reaffirm you're still on track for that.

Thank you.

Darryl Button - *Aegon NV - CFO*

Yes. So, as it relates to dividends from the Netherlands, I'll repeat what I said last quarter. I'm expecting a dividend from the Netherlands this year, but it'll be lower than what we are deeming our capital generation to be around that EUR225 million level, as you mentioned.

So, expecting a dividend, but it's going to be lower than what I would see as our annual capital generation.

Arjan van Veen - *UBS - Analyst*

And just on that, Darryl, so the total target you're happy with is just going to come from other divisions?

Darryl Button - *Aegon NV - CFO*

Yes. We're still on target to meet the $1 billion dividend up-streaming from the US. Actually we're at about the 80% mark on that. We did upstream and bring some remittances from the US in the third quarter. So, that's where the largest dividends for the Group obviously will continue to come from.

We also brought up some remittance from asset management. And then there are still CE and Spain that I'm expecting some dividends in the fourth quarter as well.

Arjan van Veen - *UBS - Analyst*

So, it's fair to say about EUR150 million of the EUR200 million was US?

Darryl Button - *Aegon NV - CFO*

The US up-streamed in the third quarter about $270 million.

Arjan van Veen - *UBS - Analyst*

Okay. Thank you.

Darryl Button - *Aegon NV - CFO*

Yes.

Operator

Thank you. We will now take our next question from Gordon Aitken, RBC Capital Markets. Please go ahead.

Gordon Aitken - *RBC Capital Markets - Analyst*

Yes. Morning. Three questions please.

First on the Mercer net outflows, I mean, you mentioned there they were in your expectations, but an 18% annualized for the quarter seems high. What was your expectation when you bought that business? And if you could say, please, if it continued into the fourth quarter?

In the US, I mean, have we reached a trough on VA sales? And is there any impact on the in-force book of the Department of Labor ruling?

And the final question is in the UK, the result of three legacy platforms in the UK, these all started out as funds supermarkets rather than wrap platforms. And one of them has announced a significant charge due to basically upgrading and basically moving from a fund supermarket to a wrap. Do you think you need to spend significantly on Cofunds?

Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Yes. Hi Gordon. Let me say something on Mercer. So, when we acquired Mercer, we were well aware of the fact that a number of customers would not be effectively moving to our platform. Actually in the whole due diligence it was already clear from the beginning that quite a number of customers were already in the process of leaving. And, therefore, it is really what we said; anticipated.

Now, these are often customers with a lot of assets, large customers with significant assets, so what you see is that you get assets leaving the business. But, then taking into account also that we have reflected this in our pricing and our pricing is adjusted based on the amount of customers that stay with us, we're comfortable that this is an attractive transaction, going forward.

What it also brings to us is that we are now also into an environment where we can pitch for the much bigger cases. Before Mercer we did not have that capability. And we are now pitching and we are now in final rounds for significant larger cases than we had before.

And, finally, as I said in my introduction, we have been chosen by Mercer also as their record keeper for their -- they have also their own proposition, DC proposition, which means we're going to see a lot of business coming.

So, you have to look at the thing as a whole. And, as such, this acquisition remains very attractive for us. And also continues to meet our own hurdle for -- from a financial point of view.

I think in terms of VA sales it's not much has changed really since last time. What we see is that the [distributors] are all starting to gear up and getting prepared for the life, I would say in the new world, where they, in most cases with one or two exceptions as we understand, are preparing to offer on one side a commission proposition and another one a fee-based proposition.

And we're well ready for that. And, as you know, actually Transamerica had a fee-based proposition already for some time. And that means that we are well prepared for entering into this new environment with a proposition which has both a commission-based and a fee-based proposition.

Having said that, it does take some time. It is being -- for many of our distributors it has been a distraction in a sense. They need to work out exactly how this is all going to work and that has been reflected in an overall lower volume of sales in the market.

So, on the platforms in the UK, Darryl, would you like to add something about what we expect in terms of our integration expenses?

Darryl Button - *Aegon NV - CFO*

Yes. Well, I think on the generic question of -- are we going to invest in Cofunds? I mean, first and foremost, we're going to be converting that business over onto our platform. And that was the thesis behind the acquisition. But there will be integration costs associated with that. And we -- I think we disclosed that at the time of the acquisition around GBP60 million is what we're anticipating from that integration exercise.

Gordon Aitken - *RBC Capital Markets - Analyst*

So, on the point in the US VA book and the Department of Labor, is there any impact at all so far on the in-force book, please?

Darryl Button - *Aegon NV - CFO*

Well, I think we're going to stick to our guidance on that. On the qualified sales we are going to see upward to the neighborhood of up to 30% sales reduction. We think that that comes across the industry as a whole and we think we'll have our fair share of that.

Qualified sales, when you take that as a percentage of our total sales that means you can see a 20% reduction in sales in the book.

Gordon Aitken - *RBC Capital Markets - Analyst*

The question's not about new business, it's about in-force business, please.

Darryl Button - *Aegon NV - CFO*

On the in-force?

Gordon Aitken - *RBC Capital Markets - Analyst*

Yes.

Darryl Button - *Aegon NV - CFO*

Sorry, maybe I missed that first part of the question. Do I expect an impact? You mean an impact in terms of additional lapses from the in-force? Is that what you're asking?

Gordon Aitken - *RBC Capital Markets - Analyst*

That's right, yes.

Darryl Button - *Aegon NV - CFO*

No, I don't think so. At the end of the day, I don't expect the business to -- well, I think if anything the business is perhaps a little bit stickier on the in-force because of the restrictions that will be in on any attempt at trying to turn the business. But other than that, I don't think they'll be material.

Gordon Aitken - *RBC Capital Markets - Analyst*

Thank you very much.

Darryl Button - *Aegon NV - CFO*

Yes.

Operator

Thank you. We will now take our next question from Matthias de Wit from KBC Securities. Please go ahead.

Matthias de Wit - *KBC Securities - Analyst*

Hi. Good morning. Three questions, please, from my side. The first is on the Dutch business. Is it possible to provide more color on the nature and the quantum of the management actions you are implemented during the quarter?

And linked to that, you also referred to longevity impact. Could you also maybe quantify the impact it had on solvency? And I wonder in this respect whether your hedges absorbed any of these updated longevity assumptions impact.

Second question is on the UK pension deficit. Is it possible to provide an update on where we are today? And I also wonder if there is any need from your side or whether you see any need to fund the plan going forward or could this have an impact on dividends, for example?

And my last question is on the holding IFRS expenses. They're trending down, currently at EUR35 million for the third quarter. I wondered whether this is a good run rate for the future and whether we should expect any further decrease. Is there, for example, also an efficiency program running at the holding company currently on top of the EUR200 million program you have for the US and Dutch business, please? Thank you.

Darryl Button - *Aegon NV - CFO*

Okay. That was a lot. I'm going to try and take those in order. Let's see, on the -- the first one I think was on the Netherlands, on the management actions. The management actions were actually we implemented some additional spread hedges. We do find that under Solvency II a lot of the capital we end up holding is for sovereign spread risk actually and overall spread risk, so we put some hedges in place that actually helped bring down the IR1 component of our Solvency II capital. That did offset the impact that we had from strengthening our longevity assumptions. And those were -- I don't have the exact numbers, but they were in the neighborhood of 5 points on the capital ratio, plus and minus, that offset each other.

Let's see, you asked also about whether the hedges absorbed some of that longevity. Yes, they help, although keep in mind some of the -- a lot of the hedges we have are for some of the more severe shocks that we see in the future on longevity. So it helps but it doesn't certainly mitigate the longevity exposure that we have.

On the pension deficit, I think I'll probably just defer you to IR to get the actual numbers. What I would say is that IAS 19 deficit numbers are all inside the solvency ratios. So as we talk about and disclose our solvency ratios, those deficits are all accounted for there upfront. So I that that -- I think that's the answer that I'll leave you with there.

On the last one, was on holding expenses, I think, if I wrote that down right. Yes, I think it is a decent run rate, what you're seeing. The expenses do represent and reflect the EUR5 million cost reduction that we've been putting through the holding. The only thing I would guide maybe a little bit differently is we do have a senior maturity, a bond that's going to mature next summer, so we are possibly looking at refinancing that in the near term and that could have a temporary effect of increasing holding funding costs for a short period of time.

Matthias de Wit - *KBC Securities - Analyst*

Okay. And on the -- I think in terms of cash holding, operating financial expense, you've been guiding for a EUR300 million annual impact. Is that still the right number to look for?

Darryl Button - *Aegon NV - CFO*

Yes, that's still a pretty good number, with the possible exception of prefunding a debt maturity next summer. But other than that, that's a good run rate number.

Matthias de Wit - *KBC Securities - Analyst*

Okay. Thanks a lot.

Operator

Thank you. We will now take our next question from Andy Hughes from Macquarie Group. Please go ahead.

Andy Hughes - *Macquarie Group - Analyst*

Hey, guys. I just got a couple of quick questions, if I could. The first one is coming back on the Universal Life changes. I guess I was a bit surprised given the higher mortality in the quarter, which obviously has been a one-off, but also the comments you've made previously about lapse rates, that there wasn't a bigger charge for Universal Life in the US. Is this partly because of price rises coming through or could you explain what's going on there, please?

And I guess the second question is on the US -- sorry, the Dutch solvency move, the 5% to 10%. If I understand the answer to the previous question, you're talking about minus 5% for Dutch longevity and something else for market conditions. Is that right? Is that in the 5% to 10% move? And the Dutch solvency, presumably if it was done today, given what's happened to Dutch mortgage spreads, it would be higher than where it was at the end of the quarter. Could you give us a comment on that?

And then finally, just trying to get a feel about US interest rate sensitivity for the business. Are you reserving at 3.75%, the same as [Voyeur]? I can see the 4.25% for IFRS ultimate rate. I'm just wondering where the US reserving rate is and how I should think about US rate sensitivity, please. Thanks.

Darryl Button - *Aegon NV - CFO*

Yes, okay. It's Darryl. I'll take those. On the UL, I think your first question was why were there not larger charges in the assumption change process? There we did have some offsetting items. We did take -- we did increase provisions for persistency experience that we're seeing on the secondary guarantee products. That's where we're continuing to see people exercising those guarantees in a more efficient way than what we had anticipated.

But we were able to actually offset that with a couple of offsetting items. We have some additional management actions in there in terms of increasing monthly deductions. And in addition to that, we actually had some very conservative modelling assumptions for our index Universal Life crediting rates and we were able to bring that back in with our normal practice. And so those all offset each other and resulted in a fairly small number for the quarter.

I think your second question was on the Netherlands Solvency II, just asking for a little more color behind my comments on the 5 to 10 points. The 5-to-10-point reduction in the Dutch solvency ratio was primarily related to the spread movements that we've seen. We've seen -- we do have a basis risk in our solvency position. That is the risk that -- overall, the EIOPA volatility adjuster, corporate spreads.

The risk is that those tighten. Those are what's used for the discount rate on the liabilities. And the bonds and assets that we actually hold widen, and that's exactly what happened in this quarter. So we have -- that basis risk was the biggest impact and then a smaller impact from the longevity that I mentioned before, offset by the management action.

So all in all, if you put that all together, I would expect somewhere between a 5- and 10-point reduction on the Dutch solvency ratio.

Your last question was on the interest rate assumption used in I think our statutory results in the US. It is in line with our IFRS assumption at the 4.25% level. That's a 10-year assumption on the 10-year treasury.

Andy Hughes - *Macquarie Group - Analyst*

Okay. And that hasn't been reviewed downwards in line with what some other people are doing at the moment?

Darryl Button - *Aegon NV - CFO*

Actually we did revise it downward two years ago, and what we are seeing is a movement in the US. There are a few people that are reducing their rates, but generally they're reducing to the level that we're at now, particularly on the IFRS side. That's what we're seeing now. So we find ourselves very much now in the middle of the pack, whereas two years ago we were probably one of the more conservative rates.

Andy Hughes - *Macquarie Group - Analyst*

Great. Thanks very much.

Darryl Button - *Aegon NV - CFO*

Yes.

Operator

Thank you. We will now take our next question from Nick Holmes from Societe Generale. Please go ahead. Your line is open.

Nick Holmes - *Societe Generale - Analyst*

Hi there. Thank you very much. Just a couple of questions. I wondered if you could give us an update on the US run-off portfolio. I'm just wondering whether the rise in bond yields might make disposal candidates more promising within that portfolio.

And then second point is, returning to the DOL, I just wondered whether you think the Republicans might be a little bit more forgiving on the DOL and whether there might be, therefore, a positive change for the industry. Thank you.

Alex Wynaendts - *Aegon NV - CEO*

Nick, let me take the question on the run-off portfolio. Yes, we have consistently said that somewhat higher interest rates would make a disposal more attractive, would allow us to get a more -- a price more in line with what we believe it's worth economically. So the rise in interest rates certainly helps.

But I would like to remind you that it's not only about the price, but it's also about the structure of the transaction. This is not a legal entity that is -- would be for sale. It is effectively liabilities that we would have to transfer to a buyer with assets. And therefore it's extremely important that we have a good counterparty risk.

In other words, it would make no sense in transferring assets and bringing that to an entity that would require us to hold quite a lot of capital for counterparty risk. So therefore it's more complicated than just the interest rates, but certainly interest rates will help in this direction.

Yes, on the Department of Labor, it's an interesting question, which we have asked ourselves too. It's obviously too early now to make any statements and any changes in expectations. I believe also the first step is really to see to what extent the new government or the new President will appoint people to his governance. There's some names circulating, but nothing has been done. And I think it's only after we see who his key cabinet members will be that we will have a better picture about the implementation of this rule.

I would say to you that my personal feeling, and this is very much personal, is that this has been very much put in the minds of the people and it was also seen as a positive for the care of protecting the interests of our customers, of customers in general. And therefore I would believe, but it's a personal view, that it's more likely that this will stay in the form it is than it would change really very much.

Nick Holmes - *Societe Generale - Analyst*

Okay. Thank you very much. Very clear answers.

Operator

Thank you. We will now take our next question from a Nadine van der Meulen from Morgan Stanley. Please go ahead.

Nadine van der Meulen - *Morgan Stanley - Analyst*

Good morning. I was wondering if you could give a little bit more detail on the capital generation for the Group. It says on slide 26 that it's around EUR0.2 billion. That was the same as 18. Could you be a little bit more specific there? Has it gone up; has it gone down? Is it more towards the EUR1.6 billion of the EUR2.4 billion level? So if you could give some more details there that would be appreciated.

And I suppose the second question is, with regard to -- yes, if you can comment on what you think the implications are of potential increase consolidation in the Dutch insurance space for Aegon's Dutch insurance business. Thank you very much.

Darryl Button - *Aegon NV - CFO*

Hey, Nadine. I'll take the first one on capital generation. On a normalized level we're showing that if you exclude the markets and the one-timers we're at EUR0.3 billion, EUR300 million. Just to put a little bit more detail behind that, I have talked about the EUR1.3 billion as our target generation, and that's EUR325 million, to be more specific, per quarter.

What we're seeing is, with the annuity sale in the UK, that drops down a little bit in more around the EUR300 million level and then will come back as we integrate Cofunds and, as we showed you at the time of that acquisition, as we get the UK cash generation back up to the GBP70-per-year level that we expect to coming out of the integration.

So it was EUR325 million, down to about EUR300 million right now, and will be, hopefully, quickly back up at the EUR325 million level per quarter.

On the second question?

Alex Wynaendts - *Aegon NV - CEO*

Yes, on the consolidation, Nadine, I would say that the Dutch market will benefit from consolidation. And at the same time, I'd like to remind what we said all along, is that in the Netherlands Aegon is very clearly focusing on organic growth. We believe that a lot of the growth will come from the whole area and environment of the work side, so it's about saving through employers, saving for pensions for the future. And that's where we see most of the growth.

And as you know, we have a very strong, a very strong market position, even a leading market position that we will certainly mainly. And that's where we will be focusing all our efforts, on growing this further organically.

Nadine van der Meulen - *Morgan Stanley - Analyst*

Okay. Thank you very much.

Operator

Thank you. We will now take our next question from William Hawkins from KBW. Please go ahead.

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

Hi guys. Thank you. In the January Investor you talked about the health profit signature having an 8.7% premium factor and 22-basis-points reserve factor. Given all the changes that have happened this year and now your assumption change, what should we be plugging in for where those margins are going in the future? Obviously a number would be great. If not, I'm just trying to get a feel after this change. Are we restoring the earnings power you expected in January or is it going to be lower or maybe even higher?

And then second, just briefly, the timing change in the US dividend, is that something that will occur now regularly? Are we going to expect more US dividends in the third quarter? And just broadly speaking, why has that happened? Thank you.

Darryl Button - *Aegon NV - CFO*

Hi Will. It's Darryl. Let's see. On the model for the health earnings, actually the US, as you know, we're going to be -- well, sorry, I won't be here, but in New York in December. It'll be a focus on the US business and in fact they'll be coming with some updates to their earnings model.

But I think what I can -- so I will defer their earnings model 'til December. But what I can tell you is, based on the assumption changes, we actually -- going forward, I actually expect a small positive run-rate impact on the health earnings coming out of those assumption changes going forward. So we'll be able to sustain, if not mildly improve those results. And that's a directional comment and the US will fill in the details in December.

The second question was on the timing. No, that was unusual. We had -- we did some holding company restructurings in the third quarter and that led to actually some capital naturally flowing back to some parent holding in the third quarter. That's the source of the [EUR]275 million. I would not expect that to continue in the future. We'll probably fall back into our twice a year, second quarter and fourth quarter for US remittances.

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

Thanks. Thanks, Darryl, for your help over the years. Cheers.

Darryl Button - *Aegon NV - CFO*

Yes. Thank you.

Operator

Thank you. We will now take our final question from Steven Haywood from HSBC. Please go ahead.

Steven Haywood - *HSBC - Analyst*

Good morning. Thank you for taking my question. It's to do with the potential of debt refinancing a 2017 senior bond here. Is there -- because you're getting fairly close to the growth leverage ratio maximum target, 26% to 30%, would you consider redeeming the debt fully next year? And is there need to redeem this bond because of the sale of UK annuity books or would you just consider refinancing it in whole?

And then if you could just discuss your capacity you have on Tier 2 debt and restricted Tier 1 debt under the Solvency II framework, please. Thank you.

Darryl Button - *Aegon NV - CFO*

Hi Steven. Yes, we've done some thinking in this area. Right now we're leaning towards just simply refinancing the senior maturity next summer and not letting that redeem. And, frankly, we're looking at fairly favorable market conditions right now to do that, so I think it would be reasonable to assume that we'll refinance it and we'll refinance it with a senior.

I think that there isn't really a lot of appetite to do a Tier 2 issuance at this point. Keep in mind the capacity for things like Tier 2 are a function of your underlying FCR as we continue to migrate towards more fee business going forward, and the reduction of the sale of the annuities in the UK as an example of that. We continue to look at ways to bring our FCR down, so I think refinancing at a senior right now, maintaining the liquidity is the most optimal position for us. And that's what I would look for the Company to do in the coming months.

Steven Haywood - *HSBC - Analyst*

Thank you very much.

Darryl Button - *Aegon NV - CFO*

Yes.

Operator

Thank you. I would now like to turn the call back to Alex for any additional or closing remarks.

Alex Wynaendts - *Aegon NV - CEO*

Well, I'd like to thank you, and again, I would like to thank you, Darryl. This was a great call. Thank you for all the work and commitment and the way you answer the questions. We'll miss you. We wish you, obviously, a lot of success in your new life in the US. And I would like to say that I'll see some of you this evening for dinner, to look forward to seeing you tonight. Thank you very much.

Operator

Thank you, ladies and gentlemen. That will conclude today's call and you may now all disconnect.
