

11th April 2016

Insurance

**Aegon**

Price EUR4.72

**Sale of two-thirds of the UK annuity portfolio**

**Fair Value EUR6 (+27%)**

**NEUTRAL**

Bloomberg	AGN NA
Reuters	AEGN.AS
12-month High / Low (EUR)	7.6 / 4.1
Market Cap (EURm)	10,125
Avg. 6m daily volume (000)	9,243

#### ANALYSIS

- Aegon has announced the sale of two-thirds of its UK annuity portfolio to Rothesay Life (a specialist provider of annuities). The deal is structured in 2 steps: 1/ Rothesay Life takes on economic risk on GBP6bn of annuity reserves (reinsurance agreement), and 2/ the legal ownership is transferred to Rothesay Life through a "Part VII transfer" (subject to UK court approval).
- The deal is positive and consistent with Aegon's strategy (remember Aegon has not been an active player in the UK annuity market since 2010). It will translate into a GBP30m loss in Q2 2016. Once the transaction has been completed, the UK operational free cash flow will be reduced by GBP35m and the UK underlying earnings by GBP20m (i.e. less than 2% of group's underlying earnings), but this is nothing compared to the release of GBP0.6bn of SCR (allocated capital), translating into a 25 points increase of the UK subsidiary Solvency II margin (c. 165% vs. c. 140%), allowing it to upstream excess capital to the holding.
- While positive, the impact of the deal is limited from a group's perspective considering the relative small size of Aegon UK.

#### VALUATION

- Based on our current estimates, our SOTP valuation is EUR6.

#### NEXT CATALYSTS

- Q1 2016 numbers are due on 12th May 2016. AGM to follow on 20th May 2016.

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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