Analyst Meeting - Day 2

Company Participants

- Alexander Rijn Wynaendts, Chief Executive Officer
- Darryl Button, Chief Financial Officer
- Willem van den Berg, Head of Investor Relations

Other Participants

- Ashik Musaddi, Analyst
- Benoit Petrarque, Analyst
- Farooq Hanif, Analyst
- Francois Boissin, Analyst
- Gordon Aitken, Analyst
- Marcus Rivaldi, Analyst
- Michael van Wegen, Analyst
- Unidentified Participant
- William Elderkin, Analyst

Presentation

Willem van den Berg {BIO 15203834 <GO>}

Good morning, everyone. Welcome at Aegon's Investor Conference. Today is about the execution of our strategy, and Alex will update you on our progress. After that, Darryl will lay out our financial strategy and the rest of today, you will have the chance to meet the rest of the management in our breakups. And I'm just going to keep it at that. Please switch off your mobile phone or put it on mute and in the Q&A, please state your name because this event is a webcast. Thank you.

Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Thank you, Willem, and good morning to all of you. It's always good to be here, and I'd like to also take the opportunity to thank you for making the effort to come here and listen to us. We do look forward, as a management team, to update you on the steps which we're taking, but also the progress we're making in executing on our strategy to transform our company.

Over the last couple of years, we have worked hard to transform our company. And for my part today, I will be focusing on the strategic transformation, while Darryl, sitting here, new CFO, newly appointed CFO, will outline our strategic financial framework. In addition to Darryl, the CEOs and CFOs of the Americas, the UK, the Netherlands, we'll also have the CEO of the Central and Eastern European region and CEO of Poland here and Asset Management, so I'm glad to introduce you later Sarah Russell and Philip Smith.

They're here for you to engage, ask questions, not listen to a presentation and hopefully, you'll have a fruitful day to better understand how they are developing their businesses and how their businesses fit in the global framework of Aegon. You will also hear in the breakout sessions how, across all of our business, we are continuing to executing on our strategic transformation, and while at the same time, capturing the growth opportunities in our chosen markets.

So last year, here in London, it's already a year ago, we shared with you our strategy and a particular, how we are adapting to a rapidly changing environment and how we're doing so by in reshaping our business, by expanding into new businesses models and also working much closer to get closer to our customer, to those who depend on us to secure their financial futures.

So last year, we lined -- outlined our strategy and today, what we would like to focus on is to provide you the clear proof points that demonstrate how we are executing on our strategy. We will share with you specific initiatives that are being implemented in each of our markets, as well show you the clear results that are being delivered as a result of our improved risk return profile, as a result of the implementation of our economic capital framework, better balance between spread and fee-generated earnings and, in particular the strong momentum in sales growth in all of our businesses.

And after my presentation -- I will have a short presentation, Darryl will outline our capital management policy. This policy is aimed at supporting a sustainable and attractive dividend to shareholders, while also making possible investments necessary to grow our business. And with regard to the targets that we have shared with you previously, we are making solid progress, despite the uncertainties of the environment in which we operate, including the persistent low interest rates.

Our mission to achieve our financial target is unchanged, though we recognize that additional management actions are necessary to achieve our return on equity target of 10% to 12% by 2015. You'll certainly recognize the strategic framework, which we shared with you last year and we set this strategic framework, so that enables our shareholders, our employees around the world to fully understand the direction we headed.

It is really important that every and each of our employees understand not only our strategy, but how they can contribute in making a success of the strategy. And I really believe, and as a management, we strongly believe that it all starts with a clear understanding of our primary focus of helping people take responsibility for their financial futures. And I'm making this point because it's a purpose I'm proud of and all our employees are proud of. Just to give you an indication, in 2012, Aegon paid out more than EUR21 billion in benefits in any kind to its customers around the world. Pension benefits, life insurance or other benefits to significant amounts, and I think that underpins again the importance of what we're doing to our customers. But it also requires to become -- that we become a truly customer-centric company at every level of our organization.

And all of the actions that we have and will continue to take relate to our four strategic objectives, which I'll highlight here in a second on the next page. Each of these strategic objectives are aimed at supporting our ambition to becoming a leader in our chosen markets. And I would like to remind you here that being a leader in our chosen market is not necessarily being the largest, it's not necessarily being the one with the biggest market share, but our ambition is to be the most recommended to our customers, to our intermediaries and also be the most preferred employer. That's how we define leadership, and we do recognize that we need to have certain skill in order to be able to achieve this.

Our four strategic objectives support the aim of reshaping our business worldwide and obtaining more knowledge about customers, so that we can understand and serve their needs more effectively and efficiently and in the way they choose. So, let me highlight a couple of examples here.

Optimizing our portfolio. To us, this is all about making the right choices. We will continue to make the necessary investments for future growth, but we'll also take a hard look at those businesses that do not meet our return requirements of the medium-term, and we will take action accordingly. And the most recent example I can share with you is the announcement last week of the disposal of our distribution business in the UK, Positive Solutions.

To further enhance customer loyalty, our second priority, we are developing technology-driven distribution capabilities in each of our markets and we believe that it will add value, not only to our customers, but it will also add value, significant value to our intermediaries, so that they can better serve our customers. They can better serve them by understanding them better and addressing the needs they have.

Also key to our strategy is to deliver operational excellence, clear examples are the cost reduction programs that we have successfully executed in all our markets with significant cost reduction programs in the Netherlands and in the UK.

But again, here, it's not just about cost levels. Equally important is investing and continuing to invest in profitable growth. It's about getting the most out of technology, it's improving service levels and, in fact, it's about doing more with less and ultimately, more efficiently and better with less.

And last but not least, our employees. As the face of our company, our employees are key to winning and keeping our customers. And this is why we spend much more effort, we're providing the necessary support to ensure that every employee in the company is in a position to leverage their contribution to organization to the fullest extent. So this common framework, which I share -- briefly sharing here with you has been successfully implemented in each of our country units around the world and is resulting in clear benefits for the Group.

Now, let me share with you a couple of examples of how we're executing our strategy in our various operations. In the Americas, we continue to improve our market positions in

Life & Health, and have significantly outperformed the market and variable annuities and pensions, driven by high-level service and in particular, the expansion of our distribution network.

At the same time, the profitability of our sales has increased significantly, and this is due to our strict pricing policy.

In our US operations, we continue to target a flat cost base in the coming years, and this is driven by economies of scales, broader and better use of technology. And in the breakouts, Mark and Michiel van Katwijk will provide you with additional background on the steps we're taking in what is -- what will remain Aegon's largest markets.

In the UK, our award-winning platform proposition continues to gain good momentum, and it is now one of the fastest growing platforms in the market, a significant achievement. And Adrian and Clare will provide you more insights on what I see very encouraging developments.

And during the last couple of months, we also secured a number of distribution agreements, including with Barclays Bank. And we expect to announce others in the near future. At the same time, we fully recognize that returns need to improve in the UK. Additional cost reductions, low commission payments post-RDR and most importantly, growth of our business will all contribute to improve returns on capital.

So Marco and Edgar will highlight the attractive growth opportunities we have identified in Netherlands, especially in a buy-out markets for pension funds, in which we have the market-leading position. Also we will deliver on our EUR100 million of cost-saving target this year and acknowledge that further reductions -- cost reductions are necessary. And again, here in the Netherlands, we all remain committed to further invest in new propositions.

In our New Markets, we see multiple drivers for growth. Central and Eastern Europe, we're expanding our footprint through the increase of our tied-agent network and add-on acquisitions in Romania and Ukraine. And Gabor Kepecs and Michal Biedzki will be able to update you in the latest developments in that part of the world, where we're increasing our presence.

Aegon Asset Management is represented today by Sarah Russell and Philip Smith, and Aegon Asset Management continues to show strong performance, as they have been benefiting from increased insourcing of Aegon Assets and the successful growth of our third-party business.

I would also like to highlight briefly here our prospects in Spain, where we completed the restructuring of our business with the exit of CAM, Civica, Unnim for total proceeds of EUR1 billion. At the same time, we entered into an exclusive long-term partnership with Spain's largest financial institution, Banco Santander, for the distribution of both life and non-life products across the country.

And recently, we appointed a Global Chief Technology Officer, Brenda Clancy, who was Aegon Americas' COO, and her role is to develop and lead a stronger IT governance practices and support our strategic objective of investing technology and innovation to get closer to our customers. And at the same time, we have accelerated our digital transformation by making investments -- a number of investments in start-ups across our organization.

Let me now briefly highlight one of the core growth areas, the At-Retirement segment, where we are leveraging our strength in all of our markets to grow our fee-based business and reduce our exposure to spread business. As you can see on this slide, in the US, the strong growth of our pensions, variable annuity, and retail mutual fund balances draw up nearly 60% since 2009, demonstrate the strength of our franchise. And this is a result of product and service model innovation, combined with expanding our distribution. We believe that the key driver of growth going forward will be to retain clients' asset through their entire life cycle and helping them to accumulate and manage the drawdown of those assets during retirement with Transamerica Solutions.

In the UK, our new Aegon Retirement Choices platform is really gaining traction. I should add that an increasing number of advisors is signing up not only for the platform, but also for a new one retirement pension product. Today, approximately 900 advisors are actively using the platform and take up -- and the take-up rate is increasing. I'm pleased to share with you that the platform is currently growing at a rate of more than GBP100 million per month. And in the Netherlands, we are benefiting from a attractive opportunity emerging in the pensions market as a result of improving coverage ratios.

As the largest provider of insurance solutions and with a strong balance sheet, Aegon is well positioned -- is uniquely positioned to continue to benefit from this trend.

As I shared with you on many occasions, selling products that provide value to our customers and to Aegon is our Company's key priority. And this is clearly reflected, as you can see here, on a significant increase in our market consistent value of new business. And this has been achieved by taking management actions, such as reprising, redesigning, but also pulling from the market products that we are not profitable and did not meet our requirements of providing value to both our customers and to Aegon.

As you're aware, we have implemented across all our businesses a common framework, the economic capital framework. And this framework not only ensures that we price our products based on the reality of the markets as they are today, but also it allows us to respond more quickly to changes in market conditions. And Mark and Michiel will be able to talk about this, which I think is a key competitive advantage which we have in our US business. Specifically, the contribution to the market and consistent value in new business from our variable annuities and the universal life products in US have increased considerably, as a result of what I just shared with you.

But also in line with our strategy, we've been able to reduce significantly the capital intensity of our new sales, as our business mix has shifted more towards capitalized fee-based products from spread fee-based products. And I believe, this slide shows you a very clear picture of the progress, which we had made in executing on our strategic priorities since the last couple of years.

At the same time, we continue to focus on reducing our expenses, which is a key element of our strategy. You can see on this slide that over the past couple of years, we have successfully reduced our cost, both on an absolute and a relative basis. And we will continue to improve cost efficiency of our business, while at the same time, making the necessary investments to improve our product offering and service levels to our customers, but also to our intermediaries.

As I shared earlier, in the US, our aim is to keep cost flat, while growing faster than the industry. In the UK, a new operating model allows for significant additional cost efficiencies driven by rationalization of our legacy systems and more headcount reductions. And in the Netherlands, we will reach our EUR100 million target -- cost targets compared to 2010 later this year, while continuing to implement additional initiatives to further reduce our cost base there.

And finally, at the holding, it also applies to the holding; we will continue our focus on reducing operating expenses, as well as funding cost.

Let me now briefly touch upon our financial strategy, which Darryl will outline in more detail in a minute. We have consistently improved the balance sheets of the country new units since 2009 through significant de-risking. And we are implementing a balanced capital deployment strategy focusing on deleveraging, paying a sustainable, full cash dividend to our shareholders and executing on strategic initiatives, including returning additional capital to shareholders.

And regarding our 2015 financial targets, we are well on track to double our fee-based earnings and increase our operational free cash flows to the EUR1.3 billion to EUR1.6 billion by 2015. However, in light of the historically low interest rate environment, we are currently on a trajectory to deliver and increase underlying earnings before tax of 7% to 10% over the period 2012-2015, which will result in an increase of between 4% and 7% over the period 2010 and 2015.

Our ambition to achieve return on equity of between 10% and 12% is unchanged, but we recognize the need to implement additional management measures in order to achieve this by 2015. Assuming the current low reinvestment yields persist until 2015 and taking into account the recent preferred share transaction and the need to deleverage our balance sheet, we are currently on a path to achieve a return on equity of 8% to 10%. And Darryl will provide you with much more details in his presentation.

So let me now briefly summarize. Aegon today is in a position, a strong position, and we are working to take full advantage of the growth opportunities in each of our chosen markets. We have demonstrated our ability to respond successfully to the new realities for our business in terms of new products and the ways of connecting to those that depend on us.

And I'm convinced, as our entire management team is that there has never been a better time for our core products and services or for Aegon. And I want to share with you here that I'm proud of what we have achieved and that we have every confidence that we are headed -- where we're headed will continue to support our determination to add long-term value to our customers, our business partners and indeed also to our shareholders.

And I'm now pleased to introduce Darryl, our new Chief Financial Officer, who will outline our new capital framework. Thank you very much. Darryl?

Darryl Button {BIO 7089946 <GO>}

Thank you, Alex, and good morning to you all. Today, I will outline Aegon's financial strategy that supports the strategic transformation that Alex has just talked about.

In the past few years, we have taken significant steps to improve the financial position of the company. This has resulted in strong balance sheets for our operating units, and our strong capital position allows us to implement a balanced capital deployment strategy.

Today, I will lay out which capital frameworks we are working with in each of our markets, and indicate the capital levels we are targeting for our main operating units. This is a key component of our capital management policy. Our capital management policy dictates the way we look at cash flow generation in the units and the deployment of our excess capital. Finally, I will update you on the progress we have been making towards achieving our targets, despite the persistent uncertainties in the environment in which we operate.

This slide shows clearly how local statutory capital ratios have developed over the last couple of years. We have significantly improved and de-risked the balance sheets of our main country units through effective asset liability management, including extensive hedging programs and, where necessary, the redesign of certain products.

Two out of the three balance sheets are now in a strong position. We are satisfied with the capital position of our operations in the US and the Netherlands. We are working to improve the capital position of the UK, where we have had a capital support agreement in place since 2009, providing a benefit to our Pillar 1 capital ratio of 40 percentage points. I would like to emphasize that this money has been set aside in the holding and is not taken into account in the holding's excess capital position.

Capital generated in the UK over the past few years has, in part, gone to the repayment of a local securitization, which will be substantially repaid in 2014. This, combined with a lower capital intensity of post-RDR pension production, will significantly increase the UK operating cash flow beginning in 2014. Clare will be able to provide you more detail in the UK breakout later today.

On the previous slide, I showed you the regulatory solvency metrics that we share with you on a quarterly basis. This slide lays out the multiple frameworks that we manage within. The RBC ratios have never been stronger in the US as a consequence of strong earnings and de-risking in prior years. However, there is another capital metric we also manage, too, in US, the S&P requirements for AA rating, which we currently consider to be the binding constraint due to its higher asset-related capital charges.

As I just mentioned, the balance sheet in the Netherlands is also in a strong position. Here, the main constraint is the IGD ratio, excluding the ultimate forward rate, or the UFR, and Aegon Bank. The UFR currently adds approximately 60 percentage points to the IGD ratio. However, in the short-term, we cannot upstream the capital created through the use of the UFR. The binding constraint in the UK is currently Pillar 1, but we're also keeping a close eye on Pillar 2. As I mentioned earlier, there is an earmark of capital in the form of a capital support agreement in the UK -- for the UK at the holding.

In addition to the various frameworks that are the current realities for our operating units, we also have to deal with new developments, such as Solvency II in Europe and Solvency 1.5 in the Netherlands. The latter is a Solvency II-type stress test applied to the Solvency I balance sheet in the Netherlands, and brings a new ladder of intervention by the Dutch Central Bank on payment of dividends. We expect more clarity in the second half of this year, and Edgar can speak to this in the NL breakout later today.

In view of the most recent developments around Solvency II, and I refer to last Friday's EIOPA proposal, there is really nothing I can say except that major issues remain unresolved in the area of pro-cyclicality and calibration.

Now let me guide you through our capital policy, which clearly defines the level of capital we want to hold in each of our business units. A position between target and buffer is our desired operating position. The most relevant level is the target level. It is important to stress that the target level is not a hard line in the sand. We do not only look at point-in-time capital ratios, but also the volatility of those ratios, and we look forward in terms of how we expect those ratios to develop.

Under business-as-usual, capital levels may fluctuate around the target level, depending on the timing of dividends and other cash flows. However, in order to promote management flexibility and stable cash flow to the holding, a buffer level is established, taking into account a risk assessment, volatility of the local capital constraints and the capital generation capacity of the business.

As I said, our desired operating position is between target and buffer. Any capital in excess of the buffer level will be subjected to additional fungibility scrutiny and remitted to the holding as soon as practical. And of course, levels below target and floor would be subject to additional internal governance and recapitalization planning.

Let me now explain to you how we put our capital management policy into practice. In the US, our desired position is a cushion between 0 and $700 million over the S&P AA requirement. Our capital position can fluctuate around the target level depending on market circumstances, earnings capacity and the timing of dividend payments. Please note that the $900 million excess capital position at the end of the first quarter is before a $650 million dividend payment, which took place here in the second quarter.

In the Netherlands, as discussed earlier, we are not taking into account the UFR and Aegon Bank. As a result of the strong capital position, the Dutch business has paid a dividend of EUR250 million, which is already reflected in the current ratio as shown on this slide.

I would like to make clear that although we don't take the bank into account, when looking at the IGD ratio, the bank is well capitalized at a 21% core Tier 1 capital ratio under Basel II. And as shown on the slide, we first need to increase the capital levels in the UK toward target before the UK will start paying dividends to the holding. Our other operations have much smaller balance sheets, but are also important from a capital perspective. For example, Central and Eastern Europe has been paying dividends for many years now.

Before I move to cash flows, let me first define what we mean when we talk about cash flows. It is the capital generated in a local operating unit, measured as the change in the local binding capital metric for a given period and importantly, after investment in new business. So moving from balance sheet strength, a disciplined capital policy and clear target capital levels to capital generation.

I just defined how we measure operational free cash flows, so the main take away from this slide is the level of cash flows our business units generate on a normalized basis. We expect cash flows in the Americas to remain stable, as the effect of growing our fee-generating business is offset by the run-off of capital-intensive spread businesses. In the Netherlands, cash flows are expected to remain stable as well. Growth of cash flows going forward is expected in the UK, post-RDR, and resulting from cost reductions. And as noted on this slide, the number shown excludes the impact of securitizations, which as I said earlier, will be substantially repaid by 2014.

In New Markets, the investments made in new ventures over the past years are starting to translate into dividends back to the holding company. Collectively, our businesses generate over EUR2.6 billion of cash flows annually, a considerable amount, of which approximately 50% is reinvested in new business. I'll address this on the next slide.

The best proof of our strategic shift towards capital-light products is the significant reduction of investments in new business as a percentage of sales, as shown here on slide eight. As most of the product shift has already occurred, I would not expect this trend to continue.

Alex has highlighted we have -- Alex has already highlighted that we have a market consistent pricing policy in place. This requires a hurdle of 1,000 basis points pre-tax over swap rates on allocated capital not related to market risks. As long as products hit this hurdle, businesses are allowed to grow, subject to certain concentration thresholds. This has resulted in a strong improvement of MCVNB over the past few years. Any product that results in negative MCVNB for two consecutive quarters is automatically escalated to the management Board for review. This has helped discipline the organization to improve profitability of new business, and on several occasions, has led to the removal or redesign of certain products.

Our capital management policy also applies to the holding. There is a prudent floor of 1.5 times holding costs to cover funding costs and operational expenses at the holding. The floor is a self-imposed management threshold and is actually a buffer in itself designed to protect the holding in times of severe stress. Over and above the floor level, we take a forward look at the cash flows, taking into consideration a risk assessment, planned dividend payments to our shareholders, investments in new ventures and our desire to secure the stability of our dividends and provide management flexibility to act in a countercyclical way.

Now, let's look at the coming three years in terms of how we intend to deploy capital. In addition to the excess capital, we have currently available, we expect our units to upstream around EUR4 billion to the holding over the next three years. Please keep in mind that this is already netted for investments in new business. Our free cash flow generation implies a slightly higher number than this, but remember, we expect no dividends from the UK in the short-term.

We had already set aside EUR600 million for senior debt maturity that has now matured here in the second quarter of 2013, and the sale of our joint ventures with Unnim and CAM are generating EUR800 million of cash this year, of which just over 200 million has been invested in the joint venture with Santander. Outflows are the cash used to facilitate the preferred share transaction with the association and operating and funding expenses at the holding. That leaves us with an estimated EUR3.5 billion over the period 2013 to 2015, which is available for deployment.

Our intention is to deploy this capital in a balanced way. In the following three slides, I will detail how we intend to reduce leverage, pay a sustainable dividends to our shareholders and further execute on our strategic priorities. We have been de-risking our operating units, and now, it is time to deal with the leverage at the holding. It improves our financial flexibility and provides additional support to our strong ratings. We will reduce leverage by EUR1.1 billion in total during 2013 and 2014.

As part of our capital management policy, we will shift from a financial leverage target on a net basis to a target on a gross basis. That means we will no longer net the leverage with the cash at the holding. We will target a gross financial leverage of 26% to 30%, and a fixed charge cover ratio of 6 to 8 times. I should point out that for purposes of this gross financial leverage metric, our hybrid capital has been treated as financial leverage. The treatment of hybrid capital varies per rating agency, and this has been taken into account in establishing the target range that I'm showing you here today. We will publish these metrics going forward, so you can track it, and you will find the detail in the appendix of this presentation.

The second category to which we intend to use capital is the dividend. Our aim is to pay a sustainable, and if the capital position and our cash flows allow so, a growing dividend in line with our dividend policy. I should make it clear that what you see here on this slide is not a forecast for our dividends. If you assume we hold our 2012 dividend constant, anyone can do the math.

However, my message here today is, we feel comfortable about our capital position and our cash flows and therefore confident in our ability to pay an attractive dividend. We will continue to offer both cash and stock dividends to our shareholders, and it is our intention to neutralize the dilutive effect of stock dividends going forward by repurchasing shares in the open market.

The third category is somewhat broader than the first two. Execution of strategic priorities means that we can help our businesses accelerate organic growth by investing in new distribution agreements and business transformation that Alex talked about, on top of what we have already planned for. Furthermore, it remains our ambition to neutralize the dilutive effect on earnings per share from the preferred share transaction.

And we might consider additional deleveraging, if required. You can think of redeeming a portion of the hybrids given the tearing and cascading roles under Solvency II. It also includes add-on acquisitions that strengthen our current positions, although our current priority remains organic growth.

Aegon's financial strategy is supporting the Group's strategic transformation and the path towards our 2015 targets. As you can see on this slide, we are on track to double our fee-based earnings to between 30% and 35% of underlying earnings and to increase our operational free cash flows to a level of EUR1.3 billion to EUR1.6 billion.

Underlying earnings in 2012 were back to the 2010 level after the transformational year, 2011, and we expect to grow from this base. And in order to reach a return on equity of 10% to 12% in 2015, more management action is required, something I'll detail on the next couple of slides.

As you know, we have set our assumptions -- we set our targets based on a number of assumptions, including rising yields. What we see is the historically low interest rate environment hampers our earnings growth and our return on equity improvements, in line with the sensitivities we have provided in conjunction with our targets.

We are currently on a trajectory to deliver an increase in underlying earnings before tax of between 4% to 7% over the period 2010 to 2015. With regard to our return on equity requirement -- with regard to our return on equity target, the Company is currently on a path to achieve a return on equity between 8% and 10%, assuming current reinvestment yields until 2015, and taking into account the recent preferred share transaction and capital deleveraging.

As I mentioned, we are now on a trajectory of 4% to 7% growth in underlying earnings as a consequence of continued low reinvestment yields. In line with our earlier statements, the impact of low interest rates is primarily felt in our US businesses. As you know, we review our assumptions in the third quarter of every year, and we will do so this year as well.

2012 is a good benchmark for underlying earnings, as it included a limited number of exceptional items. Our current plans support growth of 7% to 10% from the 2012 level of underlying earnings. This is based on the assumption that reinvestment yields will stay around current levels. The main drivers are continued growth of our fee-generating businesses, completion of the business transformation in the UK and the implementation of continued cost reductions in our established markets.

As indicated earlier by Alex, management today affirms its ambition to achieve a return on equity of 10% to 12%. However, persistent low interest rates, the preferred share transaction, deleveraging and a higher equity base due to higher-than-assumed realized gains, also a function of low interest rates, has put us on a different trajectory.

We recognize that additional management actions are necessary to achieve our ambition to reach a return on equity of 10% to 12% by 2015.

Management is focused on implementing cost reductions in all markets, repositioning the business and continues to focus on profitable growth.

Furthermore, portfolio optimization is a cornerstone of our strategic transformation. Addressing low-return business is one of the options we have for balance sheet optimization. Low-return businesses include run-off businesses, as well as certain older books of business, which yield unsatisfactory results. We will consider all options in assessing the future of these portfolios.

Obviously, we will take into account the economic interest of shareholders in our decisions. We will not dispose of businesses if we are able to extract more value by running down the portfolios ourselves.

We will also review our accounting policies across the Group for consistency. And my aim is to update you through the course of the year on our progress there. We are determined to grow our business and are convinced that our strategic focus on profitability will translate to higher returns going forward.

Now, let me summarize. Our focus and determination over the last couple of years have resulted in strong local balance sheet and considerable buffer at the -- capital buffer at the holding. We have outlined a disciplined capital management policy and will continue to disclose in a transparent way where our cash flows emerge and what our priorities are when allocating those cash flows over the next three years. We will deploy our capital in a balanced way and have set ourselves a target to reduce leverage, to pay sustainable dividends and to execute on strategic priorities. We are making good progress towards our 2015 targets, and I trust that I have made clear what the trajectory looks like towards higher earnings and improved RoE going forward.

Thank you for your attention. I look forward to our discussions in the breakout this afternoon, and Alex and I are happy to take your questions.

Questions And Answers

A - Darryl Button {BIO 7089946 <GO>}

Michael, Cor, Nick, one at a time.

Q - Michael van Wegen {BIO 6435238 <GO>}

Michael van Wegen, Bank of America Merrill Lynch. Three questions, if that's okay. First one is on the breakdown of the usage of cash flow. You show us the third bucket, EUR1.2 billion, let's say, for strategic options. Is it fair to assume that that can be broken down in sort of a third, a third, a third, one-third being neutralization of the pref capital, one-third growing the dividend over time and one-third potentially bringing down debt sort of through the hybrids, as you just mentioned?

The other question is on the solvency buffer or target in the Netherlands the 250%. Are you essentially saying that the Netherlands is not going to upstream cash to the holdco this year in order to reach the 250%?

And then the final question, on the 215 return on equity, you stick with an ambition of 10% to 12%, although you do indicate the track to be is 8% to 10%. How realistic is further optimization of the balance sheet, given the current market environment and the comments you make about valuations, etcetera? Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Okay, let me brief you, to answer the first question, I think we've made clear and Darryl has made very clear that we have set -- we want clearly to -- our intention is to neutralize the effect of the dilution in relation to the pref shares. So that is a priority. On the others, Darryl, would you like to add something?

A - Darryl Button {BIO 7089946 <GO>}

Yeah, well, on the Netherlands, we have just upstreamed a dividend here in the second quarter. And so that cash has been received, and that came in June. Now, that was -- just to be clear, that was already taken out of the capital ratios that I showed you. Because when we declare a dividend, it is DNB policy that we actually remove it from the IGD ratio when it's declared, not when it's paid.

So in the Q1, IGD ratios that dividend had been removed, but it has physically been paid here in the second quarter, and that was EUR250 million. Edgar can speak to more of that in the NL operations. I think my main message is that NL balance sheet is in healthy shape, the cash flows are in good shape and we expect the Netherlands operations to return -- have returned to paying dividends going forward.

On your -- back on your first question, we're not giving details specifically on that third bucket. But you are correct on your math, the EUR400 million would be what's required to offset the EPS dilution, and that's a third from the pref share transaction. In terms of growing dividends, deleveraging, strategic use we're -- again, we're not giving more specific guidance than what we've said here today. But I have said in the past, and I said on the Q1 call, in terms of Solvency II cascading rules in our hybrids, it's deferred and down the road. Obviously, as Solvency II is deferred, but based on a 20% cap on Tier 1, we would have above EUR400 million or EUR500 million too much hybrids in that scenario. So your math is right but, again, we're leaving that open.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Michael, and your third question was, how realistic is our ambition. I think we made very clear, both of us that, our ambition is unchanged. We wanted to achieve the 10% to 12% RoE target by 2015. We also are realistic in a sense that we recognize that we have to take management action. We're looking at all parts of our business, our portfolio, where they meet our return requirements, where they're part of the Aegon of the future.

Darryl has shared with you also consistency in accounting and other issues in relation to portfolio optimization. The run-off business, as we mentioned, too, obviously, we would have liked to make more progress in accelerating that run-off. But the reality of today is a reality of today, it's a low interest rate environment, it's not been as easy, and we would have hoped to have made more progress there, but we still have time to execute on that.

Q - Unidentified Participant

Nick Holmes [ph] of SocGen. I have only one question, which is why didn't you announce all of this earlier? I mean, I thought the capital-light strategy and the move to excess capital was clearer earlier. And I can see the transaction with the Aegon pref shares is a new development, and you need to take that into account. But can you tell us what has changed in the environment that enabled you to actually make this announcements today? Is it rating agencies who changed their view? Is it Dutch government? I mean, is there anything external that has caused this? Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Nick, I assume you mentioned deleveraging?

Q - Unidentified Participant

Yes. I'm talking about the balance sheet optimization.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yes. I think we've been very clear, as management, and we signaled it a number of times that we are looking -- we were looking at our balance sheet. And that in view of the current environment, that more deleveraging was required. We signaled I think already in Q1 -- at the result of Q1, that the bond issue, the $750 million, which is the EUR583 million, which is on the slide, that we would redeem that and you do that by using our own internal resources.

So what we're giving you today is a more complete picture of not only the position as it is today, but also how we look at it for the next coming years. That's what we're doing today. Nothing more, in my view, than clarifying and signaling and the direction we've shown and shared with you earlier.

A - Darryl Button {BIO 7089946 <GO>}

I just think it's a continuation of our strategy. I think we've been very clear about the de-risking that we've been doing at our local business units. I think we've been very clear that we were too post-cyclical a company going into the last two market corrections. We've been committed, as a management team to change that profile going forward. We've been taking risk out of the local balance sheets. We've been adding capital buffers, everything we've been doing to stabilize the cash flows going forward. And frankly, the holding is just the next part of that evolution. And that's what we're announcing here today.

Q - Unidentified Participant

Would you say -- sorry, a quick follow-up, that's your view of the interest rate outlook has changed? I mean, do you -- are you -- I think, more negative than commentators are at the moment about what's going on in US interest rates?

A - Darryl Button {BIO 7089946 <GO>}

Well, I think that we've always had a view that the yields will be higher in the future than now. It's always been a bit of a carry call in terms of when. I think we're close enough now to 2015 that we see rates remaining low for at least the next 12 to 18 months. And that's the period that really matters in terms of driving reinvestment yields and driving the earnings growth and ROE for 2015.

So even if rates came up in the last minute in 2015, that won't change the equation. So we have a view that rates are going to stay a little lower, longer. That's obviously been the case. We still think that rates will rise in the future, the question is when. As I mentioned before, we're going to take a hard look at our assumptions in the third quarter, and we'll update them at that time.

Q - Unidentified Participant

Great, thank you very much.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. Gordon Aitken from RBC. So you set out the plans to just leverage and pay dividends and strategic priorities. Just wondering how much of that is driven by the DNB or the local regulators, and how much is your decision? And if it is your decision, what are the regulators saying about those intentions? And can you give us an idea of sensitivities? I mean, what if the cash flow is less or more, and then you've set out -- I mean, what gives and what flexes of the three?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yes, let me be clear on the first part. This is the management's decision. It's our strategy, which I think we've laid out very clearly. And obviously, a strategy that we share with our regulator. We have shared this recently with our regulator, I think the regulator was pleased that we're going in this direction. But clearly, our decision and our strategy.

A - Darryl Button {BIO 7089946 <GO>}

Yes, there's no question. I've spent time on this strategy with both rating agencies and the regulators. Both reactions were the same. Very positive reaction, the simplicity and transparency and the direction and the focus that we, as an organization, have in behind this policy. It's not just about the numbers and the targets, but the governance and the discipline that we've put in behind the organization to make sure that we execute on the strategy, very well-received across the Board. Sorry, sensitivities, Gordon, you also asked for, specifically, what--

Q - Gordon Aitken {BIO 3846728 <GO>}

Well, you've got the three buckets and --

A - Darryl Button {BIO 7089946 <GO>}

Oh, what would we trade off if we had some of the cash flows out, that's a good one. If cash flows don't emerge differently, higher or lower, obviously we have choices. And what we try to do, what I tried to lay out is, in fact, those are choices, what I've laid out as a base plan. Things may be presented to us positive or negative, and we'll have to go back to the base plan and make decisions and trade-offs. I don't know if I can say a lot more than that.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah. Darryl has made clear that this is a base case, assumed on no additional capital leases taking place. So obviously if that happens, then when the new situation comes in, obviously, looking at that point in time what is the right way. But I think we've been clear also that the strategic initiatives, I repeat it, Darryl repeated it, includes also the possibility of returning additional capital to our shareholders.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi, thank you. Ashik Musaddi from JP Morgan. Just three questions. Like you mentioned that the EUR4 billion dividend is what you're expecting to come from operating business. Is it possible to get a bit of split on that? Is it fair to assume that it will be more or less in line with the operational capital generation number?

Secondly, can you be a bit more -- more details on the management actions that you plan to take? If possible, with some numbers, to go to the RoE of 10% to 12% versus trajectory of 8% to 10%.

And thirdly, if rates start to pick up, will you again get into the spread business? I mean, will you again try to sell more spread business? Or you will be still not getting into that at the moment?

A - Darryl Button {BIO 7089946 <GO>}

I'll take the first one, certain. So the dividend split, it's actually fairly simple. If you go back to the operational free cash flow slide. If you multiply that number by three, you get something a little bigger than EUR4 billion, and then subtract off UK, that assumes the UK would be, as I said before, we're not expecting a dividend in the near-term, although we're expecting a significant increase in their cash flow starting in '14.

So if you took that number, times by three, and backed off UK dividend in the next 12 months to 18 months, you get exactly 4 billion. So that's an easy answer to your question.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

More detail on the management actions?

A - Darryl Button {BIO 7089946 <GO>}

Yeah, a lot more management actions 10 to 12. So we try to highlight that the trajectory that we're on, sort of the status quo, if you will, in terms of executing the business plans and the operational plans. And you're going to hear all about those from the business leaders here this afternoon.

In terms of the additional aspirations to get from 10 to 12, that's where I've talked about the additional -- something additional is required in terms of balance sheet optimization. And there, frankly, to move the RoE, we have to go back to the -- the low RoC businesses that we have and do something transformational in terms of accelerating the run-off or taking a look at the losses that are bleeding through on those old portfolios. And there -- all I've said here and I'll just repeat it here, all options are on the table.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thanks. Just the...

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

I'm sorry, the third question on the spread business, I think we've been very clear that we want to have a company with a well-balanced risk profile, a third fees, a third spread, and third technical. Call it all others. And if rate is up, that is not going to change.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

I think Farooq was...

A - Darryl Button {BIO 7089946 <GO>}

Yeah, we got -- you need to come to front row here in a second? Farquhar [ph]?

Q - Unidentified Participant

Yeah, just one question, if I may. Coming to the run-off businesses that you're mentioning in that last question, can we just clarify how much statutory capital there is within those businesses? That's my only question, actually.

A - Darryl Button {BIO 7089946 <GO>}

Yes, statutory capital. The run-off businesses, in particular, apply to the US. So I'm actually going to defer that one to the breakout for Michiel and Mark. We've given disclosures, I know, on the IFRS capital behind us, but that's not the statutory caps. Statutory capital will be smaller number than that. So I'm going to defer that one to Michiel. Farquhar -- or sorry, Farooq?

Q - Unidentified Participant

It's okay. You can always call me Farquhar, if you like.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

No, no. It starts with an F, so...

Q - Unidentified Participant

Exactly. Same thing really.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Sorry for it.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah, Farooq Hanif from Citi. I want to go back to growth. So you've obviously implied in everything you're saying that -- the growth in cash flow, that is, so the cash flow is not going to grow much because the traditional business actually earns more cash even though it has high capital and the fee business makes lower cash, but it's often more efficient from a capital perspective.

A - Darryl Button {BIO 7089946 <GO>}

Correct.

Q - Farooq Hanif {BIO 4780978 <GO>}

And obviously, you're implying that in the 4 billion. I mean, are you just being conservative? Are you just showing stuff here for analysts so that, if you beat the forecast -- how do you get to 1.6 billion? What's going to drive growth in cash flow? Could you talk about that a little bit?

And secondly, very quickly, I just want to clarify again, because I didn't quite get it, target to buffer is you might pay out capital depending on volatility, but above buffer, you pretty much will pay everything?

A - Darryl Button {BIO 7089946 <GO>}

That's certainly our goal.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Darryl, why don't you take the second question? I'll come back on the first one there.

A - Darryl Button {BIO 7089946 <GO>}

Certainly our goal is -- on the capital policy, is to -- it's basically we're always in a zone we're always managing capital. So wasn't only -- when we put our capital policy out, it wasn't only about defining targets and floors and when we do certain things and certainly -- and our policy goes in much more detail than what I've shown you on the slide, in terms of, if we do slip below target or if we slipped as low as the floor, gives ourselves, the management team, so many days to react with so many -- with new capital plans to recapitalize within a certain period.

And the further you get away from where we need to be, the sooner we have to react and the deeper the reaction period. But it also designs -- intentionally so, we also designed a zone where we have too much capital. And so, we've designed that zone where management also has to react at the local level when we're above those buffer levels to work with their local regulators, look at their internal business models, look at what it takes to create fungibility of that capital. And it's not our intention to hold excess capital over buffers at the local units. We will upstream and remit those to the holding.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Farooq, on your first question, Darryl clearly presented a base case, most specifically saying this is not including any additional management actions to release capital. I would like to say here that the business growth -- driving growth of our business, which I focus on, showed you also, the assets -- the asset growth, further cost reductions, more focus on capital-light products, all of that is going to the direction in further improving cash flows. And that's where we'll be driving the growth of cash flows going forward.

There is more talk about the trend, the shifts from the spread to fee business, which obviously means there has been a transformation of the business in the US and that explains why you will not see the same kind of growth in cash flows as we've had in the past because of the shift of business.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just to clarify, assuming base case, we shouldn't assume the cash flow grow that as the management, the ratio is going to go down.

A - Darryl Button {BIO 7089946 <GO>}

Yeah, I think the trajectory of the growth -- what I'm trying to -- the largest number in the page, obviously, is coming from the US operations. And that's where we have the largest shift in business mix, if you will, away from spread and into fee-oriented businesses. So, the cash flow is high right now, frankly, and it's boosted by in the near-term, because of the runoff in the capital from things like the fixed annuity and the institutional spread portfolios. Now, that runoff eventually gets smaller as you go forward.

But we see a significant growth in the rest of the technical and fee-oriented businesses. So, that produces a stable pattern on our largest number. Modest growth coming out of the Netherlands. And then, what I try to signal is, where the real growth is going to come from in the operational free cash flow will be the UK and our new markets. And specifically, and you can ask Gabor and Michiel today from the CEE region, but they've been actively paying dividends for a while now and growing those dividends.

And also, asset management is pure fee business for us and they're contributing dividend growth going forward as well. So, that's the pattern you're going to see and where it's going to come from. That's why we're cautioning, even though we're in our range of where we said we wanted to be, 1.3, 1.6, we're not cautioning -- sorry, we're cautioning any kind of notion that we're going to grow up and out of that range, I don't see that happening.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, Benoit Petrarque from Kepler Cheuvreux. Three questions on my side. First one will be on the 8% to 10% RoE targets, which type of reinvestment yield assumptions you have here? We had quite some good activity on the reinvestment yields. So, clarification on the risk (inaudible) spreads will be useful. Second question is Solvency 1.5 in the Netherlands, I think that the DNB had a meeting with the sector on the first week of June. They organized a small meeting. Just wanted to get your view on where we go, will that be closer from Solvency I or closer to Solvency II, obviously, 1.5 is somewhere in the middle.

And the third question is on the Netherlands. I think you have achieved 90% of the cost-cutting there. You are mentioning that further cost efficiency will come. How much room do you have there considering growth of pension and also on the banking side? Thanks.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Thanks for your question. I think all these questions also should be addressed in the breakout sessions with the management. Edgar has been very much in close contact with the DNB, he can give you some color. Just on your first question, Darryl mentioned, based on current yields. Darryl, that's what, 3.5% to 4%?

A - Darryl Button {BIO 7089946 <GO>}

3.5% to 4% reinvestment yields in the US, that's -- obviously, those are -- our reinvestment yields are higher when you get into the CEE region than others. But for the big business, it would be 3.5% to 4%. Solvency 1.5, do you want me to say a couple of things?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yes, say a couple of things on it.

A - Darryl Button {BIO 7089946 <GO>}

Just, Edgar can talk to it much more clearly in the breakout. But for the most part, we still don't know the details. What we do know is that they are exporting the shocks, the sensitivity analysis from inside Solvency II and they're exporting that over into the Solvency I balance sheets and IGD ratios. So, think of it as an extension of Solvency I, not an early adoption of Solvency II is probably the right way to think of it.

And the sensitivity analysis on Solvency I and then bringing forward additional ladder of interventions. So after you do the sensitivities, if your ratios drop too far, and we don't know what too far means, it hasn't been calibrated yet, then you have to have pre-approval for dividend payments. And if they stay above the threshold, then you don't. So, Edgar can speak to all of this, but --

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

I think, at this point, that Darryl is just raising about the pre-approval about dividends is giving actually the regulator additional tools to have more of a say in relation to fungibility of capital. In itself, we don't mind it at Aegon because, as Darryl has shown you, we have a pretty high level. But it will give more clarity in, I would say, in the rest of the market.

And the final question, on cost reductions. And again, Marco and Edgar can talk about it. 90% has been achieved on the 100 million. So the target up to the end of 2013 is clearly will be achieved -- will be overachieved. We did signal -- I did signal additional cost reductions, and I'm sure that Marco and Edgar will be able to give you a bit more color. Although we're not going to commit right now to the amounts publicly at this point in time.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Marcus Rivaldi from Morgan Stanley. Two questions, please. So, on your leverage estimate for 2013, are you baking to that some assumptions coming out of euro an assumption review process in 3Q? And your general, longer-term targets, are you building in some flex from assumption changes prospectively into that? And then secondly, you did talk about efficiency gains at the holding company, you talked about the funding costs, is there opportunity here for you to look to maybe some -- retire some of your more expensive debt and replace it with cheaper debt, prospectively? Thank you.

A - Darryl Button {BIO 7089946 <GO>}

Yeah, so on the 2013 leverage targets, no, there's really not -- they're not really impacted by any assumption changes or anything that would factor into that. That was basically a walk looking forward, retiring out the note that had just been retired out here in June of 2013. So that one's not sensitive to any kind of assumption nor are there any kind of assumptions influencing our targets going forward.

On the second question, on the funding cost, yeah. Are they more expensive than cheaper? Yes. So one of the notes is fixed rate, one is floating rate between the two notes that we are retiring out in '13 and '14. So, on balance, that is, obviously, the fixed rate is more expensive of the two of the floating rate is relatively cheap. Going forward, I'll go back to what I said on the hybrids. There are a couple of hybrids with coupons, 7.25%, 7.5% out there. So there is a possibility to do -- either retire those out or do some refinancing in that area. So, that's something we'll continue to look at.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

I just want to make the point that the funding cost, obviously, are an important part. But we also have our own holding cost, which we are also reducing and will continue to reduce to be more efficient, less duplication with the country units. So that is also a part of it, and not an unimportant part.

A - Darryl Button {BIO 7089946 <GO>}

And, obviously, the 1.5 times holding costs come down as we delever, and the funding costs go down for the holdco as well, so that current 750 will trend down as we complete the deleveraging. I know we've got one up there?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah.

Q - Unidentified Participant

One thing is missing on my view, if I may, in the presentation. You said on your investment portfolio, nothing is said about the strategy. I mean, what is your aim, the asset allocation. For me, still, it's like a black box. And with Solvency II, I think something obviously will be part of the balance sheet, Darryl?

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

No, let me see, and I understand your question. There's been a lot of discussion, especially in the low interest rate environment, how do you get more yield? I want to be very clear here that we have the portfolio, the portfolio is very transparent, we provide it every quarter and we do not intend to re-risk the portfolio.

I think it's important that we get that message. Nothing's here with Solvency II. As you rightly say, that could have an impact. But Solvency II anyway is going to be delayed, so we'll stick to our strategy in terms of asset allocation, which is the one we have right now, which I think is very -- it's very public and transparent.

Q - Francois Boissin {BIO 16045021 <GO>}

Good morning. Francois Boissin from Exane BNP Paribas. Just one question on Solvency II. How do you see the conclusions of the EIOPA on the long-term guarantee assessment and how do you see the way forward? Thank you.

A - Darryl Button {BIO 7089946 <GO>}

Yeah. That's a good question, what is the way forward? So, EIOPA has taken on board the long-term guarantee impact assessment study. The industry participated, we participated in that, given lots of sensitivities. It highlights the issues in the current proposals, quite frankly, in terms of -- there's some good news in the EIOPA proposal that they put across last Friday. They put forward a structure that starts to deal with some of the key issues. The key issues being the counter cyclicality, the discount rate, the calibration, if you will, of the framework, the extrapolation of the yield curve beyond certain tenors, matching adjustment, which is really not as important for us. But these are all important elements that need to be addressed in the proposal. They've put together a framework that starts to address those.

But then they applied, just to give you an example, on the counter cyclical issues in the framework, they've put together a framework that would deal with that, but then they put a haircut on -- the proposal haircut on the, they call it volatility balancer, inside of there and that's a haircut that I think has to be negotiated back away, because what the haircut -- it's an 80% haircut. So, they put the framework in and then they took it all back out.

So that has to be dealt with in this next round of negotiation. And I think that's what they set up for, was basically a negotiation. So that's what's going to happen next. I know -- so EIOPA is talking with all the local supervisors, it will also -- European parliament will get involved in the commission. The industry -- Alex is very active as Chairman of the PIF[ph] I sit on the CFO Forum. Tom Grondin, our Chief Risk Officer, plays an active role on the CRO Forum. So, we're engaged and driving in every avenue that we can. Edgar is also very involved from the Dutch operations and the NL Associations. So we're touching this and hitting this in every angle that we possibly can.

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

Yeah. What I could add is that, we have now come at a crossroads, clearly. And why is this? Because we all know that nine months before the elections of the European parliament is kind of the final moment for achieving an agreement. And all the parties involved, EIOPA and as all the regulators know, that if we are not getting into an agreement in the coming months, then it's going to be pushed out forward and then it's out of control.

In other words, we don't know which direction it's going to go. So, I think the stakeholders all understand the importance of achieving an agreement right now within the next coming months. And as Darryl said -- I mean, the positive is that there is a framework and an agreement from EIOPA now, that there is a need to adjust the framework to reflect the reality along the long-term guarantees. I find it always interesting that we talk about a haircut of 80%, to me, a haircut is up to 20%, unless you get a Darryl Button kind of a style of haircut. But to think about that -- and therefore, we think that it should be kind of a negotiating position and we'll see, -- where we're going to go on this one. But the stakeholders know what is at stake right now.

A - Darryl Button {BIO 7089946 <GO>}

Alex knows I'm not really a fan of hair jokes. I'm looking at (inaudible).

Q - William Elderkin {BIO 3349136 <GO>}

Thanks. It's William Elderkin from Goldman. Two questions. One, in terms of the revised, if I can call it that, earnings growth assumptions that you've given at 2015, I'm just wondering how important are the various initiatives you shared on slide 13 of your presentation, Darryl, in terms of the execution of strategic priorities?

And then secondly, in terms of thinking about the potential growth of dividends over the next couple of years, does that 4% to 7% earnings growth range provide a useful reference point for us?

A - Darryl Button {BIO 7089946 <GO>}

So, I was hoping 13 would show up, there it is, okay. Now, I've lost the question already, sorry. On 13 --

Q - William Elderkin {BIO 3349136 <GO>}

What kind of impact -- what is the impact on these measures which you mentioned here in order to achieve the earnings target?

A - Darryl Button {BIO 7089946 <GO>}

Sorry, can you please repeat the question. That was it? That was the question?

Q - William Elderkin {BIO 3349136 <GO>}

Yeah.

A - Darryl Button {BIO 7089946 <GO>}

To what extent -- I was putting it out of my pages and I completely missed the question. Sorry, ask me one more time.

Q - William Elderkin {BIO 3349136 <GO>}

(Inaudible). How important are the measures you outlined on that slide in terms of the earnings growth you've set out to 2015?

A - Darryl Button {BIO 7089946 <GO>}

Okay, sorry, sorry, sorry. Yeah, I mean, certainly this is -- what I tried to lay out before, in terms of the operating plans, and I think what you'll get when you get to all of the breakouts today, is you're going to find the core organic growth operating plans that exist in all of our core operations. And that's really the primary driver of the business plan. This is an important additional step in terms of anything we can do to accelerate those and/or -- so there's different components in here in terms of neutralizing the pref share transaction and growing the dividend. Those are important for hitting the RoE targets, as I mentioned before.

So I think in terms of relative importance, it really comes back to the key operating plans, the investment in new business, and the business strategy that are all in the baseline plan at the operating unit levels. And then these are important as -- I guess, I would say, secondary importance to those plans, in terms of providing additional earnings growth and/or -- so for instance, in neutralizing the EPS in terms of providing that last few basis points of RoE pickup.

Q - William Elderkin {BIO 3349136 <GO>}

And in terms of the likely dividend trajectory from here, to the--

A - Alexander Rijn Wynaendts {BIO 1821092 <GO>}

We've given a clear policy. Our dividend is based on the balance sheet, the strength of the balance sheet, cash flow generation. We want a sustainable dividend, we want a dividend that is attractive to the market and obviously, we'd like to grow the dividend but on a sustainable basis. So I think it's very difficult for me to tell you anything more than that. What Darryl showed you, I will repeat that, is the base case, yeah.

A - Willem van den Berg {BIO 15203834 <GO>}

This is going to conclude the Q&A session. I think there's plenty of time today to ask questions. So Alex and Darryl and the rest of the management, we invite you for a coffee break now and then the breakout start at 10:30. Thank you.