Capital Markets Day

Company Participants

- Allegra van Hovell Patrizi, Chief Risk Officer
- Duncan Russell, Chief Transformation Officer
- Jan Willem Weidema, Head of Investor Relations
- Lard Friese, Chief Executive Officer and Chairman
- Matt Rider, Chief Financial Officer

Other Participants

- Albert Ploegh
- Andrew Baker
- Benoit Petrarque
- Cor Kluis
- Farooq Hanif
- Farquhar Murray
- Fulin Liang
- Michael van Wegen
- Nick Holmes
- Robin van den Broek
- Steven Haywood
- William Hawkins

Presentation

Jan Willem Weidema {BIO 15133400 <GO>}

Hello everyone and welcome to Aegon's Virtual Capital Markets Day. For those of you who do not know me, my name is Jan Willem Weidema and I am the Head of Investor Relations here at Aegon. On behalf of the entire team, thank you for joining us today.

Let me start off by saying that the journey to get us here has been an intense one. However, I do feel confident that the presentations you will see today will serve as proof of a well thought out strategy and include the steps needed to deliver value for shareholders.

During the course of our four-hour event, you will hear first from our CEO, Lard Friese. He will explain the strategic choices we have made and we'll continue to make. Then it's on to our Chief Transformation Officer, Duncan Russell. Duncan will explain how Aegon's transformation is going to be achieved. Half way, we have a Q&A session focused on first two presentations followed by a short break. Next, we have Chief Risk Officer, Allegra van Hovell Patrizi. She will share the plans we have developed and the actions we have taken to protect shareholder value. And finally, our Chief Financial Officer, Matt Rider will share in detail how this transformation will lead to increased returns to shareholders. We will round it off with a second Q&A session with all presenters of today. The slides of this event can be downloaded from our website. Finally, we would appreciate it if you could take a moment to review our disclaimer on forward-looking statements, which you can find at the back of the presentation.

Lard, the floor is yours.

Lard Friese {BIO 17008174 <GO>}

Thank you, Jan Willem. I would like to welcome all of you to our Capital Markets Day and I would like to extend a special welcome to our colleagues, many of whom are with us today. I'm humbled by their unwavering commitment in assisting our customers and supporting our distribution during the COVID-19 pandemic. Their passion, their focus and hard work inspires me daily and fuels my conviction that we will be able to deliver on the plans we will share with you today.

Let me now take you to the first slide. We are excited about Aegon's future and today, we will tell you why. We will transform Aegon, change our performance trajectory, and create value for our customers and shareholders. We have decided to focus on three core markets, three growth markets, and one global asset manager. Additionally, we have decided to separate our businesses in our core markets into financial assets and strategic assets.

We will focus on maximizing the value of our financial assets while releasing and reallocating capital over time to the strategic assets and growth markets where we will invest and grow. We will align our organization with our strategy. Dedicated teams will manage the financial assets to optimize and accelerate the desired outcome. To ensure we deliver on our objectives, we have developed a rigorous and granular operating plan over the past months aimed at drastically improving our performance. We will also operate with a clear and more disciplined governance and shift to an intense organizational rhythm to realize this transformation. We will keep a good pace as we execute on our plans.

We have a new management team with a track record of managing large cash generative balance sheets and we have already taken a number of actions in the last months. We have reset reserves, reset the dividend, paid down internal leverage and merged our two large life insurance carriers in the US. In addition, we have announced the divestment of Stonebridge in the UK, sold the Transamerica Pyramid and announced the divestment of our Central and Eastern European operations to Vienna Insurance Group 10 days ago.

Throughout our transformation, we will ensure that we maintain sufficient capital in our business units and at holding so that we can focus our time and energy on increasing our return on capital and the return of capital to shareholders. These capital distributions will be attractive and growing. But above all, they will be well covered by free cash flows. We have set ourselves the following targets. We will reduce gross financial leverage to between EUR5 billion and EUR5.5 billion by 2023. We will implement an expense reduction program of EUR400 million in the next three years. We will increase free cash flows to between EUR1.4 billion and EUR1.6 billion cumulatively over the period of 2021 to 2023, and we will grow the dividend to around EUR0.25 per share over 2023.

In the medium-term, should there be surplus cash flow above and beyond that, we would expect that to be returned to shareholders unless we invest in value creating opportunities subject to strict financial and non-financial criteria. Matt Rider will discuss our targets with you in more detail later today. We acknowledge that Aegon has not lived up to its potential for quite a while and this calls for a change. And to really change, we needed to understand why we have underperformed. We have therefore conducted a rigorous review. We reviewed all business lines and assessed our product and distribution strength across the business, including our position versus competitors. We have also analyzed our balance sheet, our risk management, the quality and periodicity of management information, our internal track record of plan creation, execution and delivery, the quality and depth of our performance management practices and the quality of our decision-making.

The key takeaways of that review are as follows. Number one, we have lacked strategic focus. By not making real choices, a complex footprint emerged with too many subscale positions. We tried to be too many things to too many people. Number two, Aegon's capital allocation has been suboptimal as we try to benefit from too many opportunities at the same time. Decentralized decision making led to dilution of capital allocation. Number three, we have lacked a true high-performance culture aiming to achieve or overachieve on our business and financial objectives. Our performance reviews have lacked frequency and depth. Our culture is one of hard honest work and a passion for helping our customers, but it is not a culture where we challenge each other enough and hold each other accountable and address underperformance immediately and decisively. And finally, in the current low interest rate environment and with the current economic outlook, we believe that our leverage is too high.

Furthermore, our capital ratios are too volatile with our capital position exposed to macroeconomic influences. This leads to a lack of predictability of remittances from some of our main businesses. All this calls for a fundamental change. We are deeply committed to change Aegon into a high performing, well managed and enduring company. We will narrow our focus to three core markets, three growth markets, and one asset manager. We are establishing a disciplined capital allocation approach to our businesses. We are improving our operating performance through proactive disciplined management of the business. We are reducing expenses where possible and are investing rationally in growth aimed at building scale and improving margins. We are reducing unwanted macro risks and we are strengthening our balance sheet. And finally, we are in progress to align our organization to our strategy, strengthen our talent base and shift to an intense rhythm of delivery. By executing on these priorities, we will transform Aegon.

So let us move to Slide 4. Our vision is to become a leader in investment, protection, and retirement solutions. We will do this by building on our strengths today. First, we are well-positioned with trusted brands and leading retirement platforms in attractive markets where the key dynamics are in our favor. We operate in some of the largest and most advanced retirement and investment markets in the world, the U.S. the UK, and the Netherlands.

In addition, we have a growing and profitable presence in large growth markets in Spain, China and Brazil. Demographic realities in our chosen markets and low interest rates mean our customers need to save more, not less. In addition, governments and other institutions within the past organized and in many cases guaranteed retirement benefits are shifting responsibility for long-term savings and retirement planning to households and individuals. The result is that customers in our markets take on greater individual responsibility and need more investment, protection, and retirement solutions. More money needs to be managed, not less.

In short, we're in the right place at the right time. Secondly, Aegon has a large customer base of 29 million customers. We have the distribution reach and strength to provide our propositions to our customers who will increasingly benefit from more sophisticated and tailored digital services and advice. Our global integrated asset management business will be key to our success. As a result of the products we offer to our customers, we operate a platform with EUR900 billion of revenue generating investments. Aegon Asset Management manages 40% of these assets with an opportunity to grow its share of the overall assets under management over time.

Finally, over the many decades, we have built deep expertise in designing product solutions, managing risk, managing assets, selecting third-party asset managers, building distribution, and reaching customers to help them achieve a lifetime of financial security. Our expertise and practices for example in retirement and asset management travel across our markets in order to accelerate our progress. These strengths will allow us to realize our vision.

Let me now show you how we're going to do this. Our businesses in the United States, the Netherlands and the UK are the cornerstone of our strategy. In these markets, we possess leading positions, which we want to grow and expand. We want to be seen as leading with contemporary propositions and outstanding digitally enabled customer service. In addition, we will continue to access attractive growth markets through our successful partnerships in Spain, China, and Brazil. Together with our partners, we will develop these businesses and capture the growth potential they provide while leveraging our global expertise and capabilities. Our global asset manager with its strong investment capabilities will be key to our success in both our core and our growth markets.

Within the core markets, we will split the businesses into strategic assets and financial assets. Strategic assets are businesses where we are already well-positioned for volume and earnings growth or businesses that in principle have a good market position, but need operational improvement to accelerate their volume and earnings growth. We will invest in these businesses so that profits and valuation multiples improve over time and their relevance in Aegon's overall portfolio increases. Financial assets are blocks of business which we have closed for new sales. These financial assets are capital intensive with relatively low returns on equity and capital employed often due to the low interest rate environment.

In the future, we will run these businesses for optimal financial outcomes maximizing net present value. This will involve rigorous expense and efficiency management, active capital and risk management, and financial optionality including reinsurance or divestment in part or in whole. Our aim is to reallocate capital from capital intense financial assets to higher-margin strategic assets to improve returns on capital and attract higher valuations. In our three growth markets, we will continue to invest in profitable growth. We aspire to gain market share in these markets together with our joint venture partners. If possible, we will deploy additional capital through acquisitions provided that it creates value and adheres to our strict financial and non-financial investment criteria.

I'm now on Slide 7, which highlights how we leverage group wide capabilities and how our businesses work together. In many ways, this leads to unique competences as well as cost and revenue synergies across the group. Let us start at the top of the graph. As mentioned on the previous slide, we will reallocate capital from financial assets to strategic assets. The capital release from financial assets will fund investments in our strategic assets and growth markets. Across our group, we leverage business synergies as we focus on workplace solutions, protection, and longer-term investments. Our expertise travels across our markets. What works in one market can also work in another.

We leverage our retirement platforms to provide a wide range of products. This allows us to cross-sell additional services and products like for example, employee benefit products to retirement plan customers. The link between strategic assets and our global asset manager is strong. The retirement platforms in all three core markets provide a great opportunity to sell asset management solutions. We aim to increase the penetration of our own competitive proprietary investment solutions in the retirement businesses. Equally strong is the link between our financial assets and our global asset manager. Our asset management teams deliver strong investment returns, which are important for a sound and effective management of the large back books of the financial assets.

On the back of the expertise gained by working closely with the strategic and financial asset units, our asset manager aims to grow its third-party business to leverage scale and increase profits. An example of this is our residential mortgage business where our Dutch mortgage platform originate mortgages, which our asset manager offers to third-party investors. This intense connection between the different businesses shows how we work as a group. Clear strategies and decisive actions will make this connection even stronger and more powerful as I will show in the next few slides.

Let me start with the actions we have taken in each of our three core markets. In the United States, our Transamerica workplace solutions division is well positioned for growth in volume and earnings. We consider this a strategic asset and we'll invest in growth with an enhanced focus on small and mid-sized retirement plans. In addition, we will invest in selected product lines into Transamerica individual solutions division. These include term life, whole life, and indexed universal life, mainly sold through our wholly owned distribution channels, the World Financial Group and our own agency channel. We will also continue to sell selected mutual funds and individual retirement products like accumulation products with limited interest rate sensitivity.

While these product lines are well-positioned in growing markets, we need to invest in new technology and implement operational improvements to ensure volume and earnings growth can accelerate We consider our large interest rate sensitive variable annuity product lines with living and debt benefit riders to be financial assets. The same applies to our standalone individual long-term care book and our fixed annuity product line. We have therefore taken the decision to stop new sales for all of these books. These closed businesses will be managed by a dedicated financial assets team to optimize financial outcomes through active operational risk and capital management. While we will continue our successful management of the long-term care book, the team that will manage our financial assets will look for possible solutions to offload the risk of the annuity book. We will only do so once we have completed the review regarding our hedging of this book. Allegra van Hovell Patrizi will explain later.

In the Netherlands, Aegon is a market leader in new style defined contribution workplace solutions and mortgage origination. We consider these as strategic assets and we'll expand our capabilities to support our growth ambitions. We will also expand our niche position with our bank Knab in the SME and retail market. The bank will serve as a digital gateway to individual retirement solutions. Conversely, our Dutch life business is considered a financial asset and similar to the U.S., a separate specialized team with some of our best people for this task will actively manage Aegon Leven [ph] to ensure we achieve optimal financial outcomes.

Aegon UK is a market leader in workplace solutions and financial advice platforms in a large and growing retirement market. It will therefore be a strategic asset. We believe there is significant opportunity to create value by investing in the platform used by independent advisors. We want to sharpen our competitive edge and improve the digital experience for customers, advisors and employers. We will invest in expanding our propositions with our own investment solutions and enhanced accumulation offerings. Some areas of the portfolio are financial assets and in line with our capital allocation approach, we have recently announced the divestment of Stonebridge for GBP16 million.

In Spain and Portugal, China and Brazil, we operate growing businesses that provide access to these large, but under penetrated markets. In Spain and Portugal, we have just expanded our bank assurance partnership with Banco Santander after their acquisition of Banco Popular. We plan to develop this business further, grow the franchise, and continue to build on our good relationship with Banco Santander.

In China and in Brazil, we will further invest and generate growing volumes and earnings by expanding distribution and entering new pension markets. The pension and asset management market in China is just opening up and provides an opportunity in which we want to participate. Last but not least, our global asset manager is the Intel inside of many of our products and is the in-house manager of our general account assets.

Additionally, Aegon Asset Management attracts third-party mandates and has joint ventures in China and France. We consider it a strategic asset and aim to grow it. Asset management has recently announced a global organization including rebranding of all operations to the Aegon Asset Management brand. To drive expenses down and make Aegon Asset Management more scalable and client-focused, it is moving towards a global new technology platform for its operations.

Aegon owns a couple of businesses that are subscale or active in a niche or a small market. We will manage these businesses with tight capital and with a bias to exit. As announced end of November, we have reached an agreement with Vienna Insurance Group to sell our businesses in Central and Eastern Europe as these are operations in the relatively small markets. The sale allows us to increase our strategic focus and strengthen our balance sheet. The value of these businesses is demonstrated by the attractive transaction multiples of 15 times net earnings and 2.6 times book value. The total proceeds were EUR830 million.

At this point, let me add a big thank you to our employees in Hungary, Poland, Romania, and Turkey for their significant contribution to Aegon over the years. Transamerica Life Bermuda, our business focused on high net worth individuals run out of Hong Kong and Singapore will be focusing on less interest rate sensitive products and on in force management while reducing expenses. In India, we will close our traditional distribution channels. We will continue our digital commerce partnerships and we'll build proof points before we invest more in their growth. Furthermore, we will exit other subscale positions and ventures.

So to recap the strategy, we will reallocate capital over time from financial assets and non-core businesses to strategic assets and growth markets. We will build on our strong foundations in the chosen markets and capitalize on the positive structural demographic and consumer trends. We aim to become the leader in investment, protection, and retirement solutions, and we'll continue to build global expertise in this field. Over time, we aim to grow into less capital intensive businesses with higher returns on capital and to deliver this, we need strong management action and alignment with our strategy. We need to implement a granular operating plan and we need to shift the company to an intense operating rhythm to ensure delivery and build an execution track record. This means that we will adapt our target operating model and create two teams to manage the financial assets in the U.S. and in the Netherlands.

We will appoint executives to these teams who have the competencies, skills, and mindset to manage these books for optimal financial outcomes. We will also finalize the implementation of a global operating model for Aegon Asset Management to ensure we run it as a fast-paced global business attracting world-class talent. In addition, we adapt our overall governance model to speed up decision-making and install clear accountabilities while maintaining strong group oversight and direction. We will move to a concept of accountability within a clear framework instead of a federated model.

In this new model, the corporate center sets strategy, allocates capital, defines risk appetite, and sets the targets to the units. In addition, the corporate center determines functional mandates, sets policies and frameworks, drives overall performance and strategy implementation, delivers overall group safeguarding and risk management, and makes top team decisions and provide shareholder services. Business units operate within the group framework and policies. They develop local strategies within the group strategic framework as well as operating plans and ensure the implementation of such strategies and plans. Global functions with clearly defined and strong mandates support business units in a matrix organization, whereby the functions are organized within the business, but aligned to a global functional line from the corporate center.

We will remove duplication of work and streamline management layers. We have great talent across the group. We will invest in our talent and hire new talent where appropriate. Also, we need to ensure that talent in our group is allocated to positions, which matter the most and allow them to develop further. In order to implement this transformation, we will invest on our execution capabilities and skills. Critical to a transformation on this scale is a rigorous and granular operating plan. In the last months, we have developed such a plan with the support of an external party. We launched the process two days after my appointment as CEO. The first phase was an independent diligence process where we assess the earnings potential and value gap with peers using a mosaic of different benchmarks based on internal and external data.

Subsequently, we set internal financial targets and launched the bottom-up planning cycle during the summer where we asked work streams across the group to develop initiatives to reach their targets. In this phase, every initiative required a business case signed off by our finance teams to ensure the case adheres to strict financial criteria. Every initiative with an attractive business plan was turned into a detailed operational plan with clear milestones, dependencies, and accountable owners. To conclude the bottom-up planning cycle, the management board went into a period of sequencing and priority setting. Over 1,500 people were involved in creating this plan and it was developed bottom-up to ensure that our plans are fully owned by the people who need to make it happen.

I have personally chaired every week the meetings with our management board to oversee and drive the development of our plan. It forms the basis of our financial targets and underpins our transformation roadmap. The plan also adheres to the highest standards of granularity and accountability with more than 1,100 initiatives, 15,000 milestones and 3,000 KPIs. Initiatives range from things like reducing the number of corporate press subscriptions worth EUR12,000 only to the conversion of our U.S. annuity products to the new operating platform worth in excess of EUR14 million on a run rate basis.

In short, we know what to do and we know exactly who is accountable for delivery. Execution is in progress as we speak and unlike before, we have invested heavily to make sure every single person involved from myself to the operators in the frontline have the execution capabilities needed to develop and deliver rigorously every single day, and we will continue the disciplined weekly pace with the heavy involvement of me and the management board to ensure it's successful. These 1,100 initiatives that are included in our operating plan are focused on both expense reductions and revenue growth. These initiatives are set up to improve our margins in the different businesses, enhance the user experience, and also to grow our customer base of course.

We plan for about EUR400 million of savings from expense reduction initiatives and about EUR150 million of underlying earnings benefits from revenue initiatives, giving the group a boost of EUR550 million in underlying earnings before tax compared to a situation when we would do nothing and face an eroding earnings pace of the group. These initiatives come at a price. We are planning to invest heavily in the next three years. This will inevitably lead to restructuring charges in the years to come. We have made our strategic choices, we are adapting our organization and operating model to set us up for a successful implementation of our strategy, and we have developed a granular operating plan to make it happen.

Now the link between all of this and success is rhythm, cadence. We need to shift to a higher clock speed, execute, review, improve, block, tackle, execute, review, improve, block, tackle, et cetera. We will conduct talent reviews and casting sessions to ensure that every leader and his or her competencies and skill sets fit with the assignment of his or her business unit within our new strategy. The company used to review operating performance three times a year in the past. Since this summer, we have moved to monthly business performance reviews chaired by myself.

Throughout our transformation, we will ensure that we maintain a strong balance sheet so that we can focus our time and energy on increasing our return on capital and return off capital to shareholders. We have a clear capital management policy in place that drives our capital deployment decisions. Capital deployment of the group is driven by the cash capital at holding and is supported by reliable remittances from the units. The units will pay remittances to the group as long as they stay above the minimum dividend payment level and we will manage to a higher operating level of 400% RBC ratio for the U.S. and 150% for the Solvency II units. As of the third quarter, these three units are close to or above their operating level.

Further, we have set our operating range for cash capital at holding to be between EUR0.5 billion and EUR1.5 billion. This covers contingent capital needs such as dividends, holding operating and funding expenses, and the potential need to recapitalize subsidiaries after a shock event. At the moment, we want to maintain cash capital in the upper half of the operating range so that we have cash available for contingencies in times of economic uncertainties due to the pandemic and the ongoing restructuring. Later today, Matt will explain our capital management policy in more detail. He and Allegra will also provide insights into the actions we are taking to reduce the volatility of our capital ratio and our exposure to financial markets.

So let me now summarize the targets we have set ourselves and which reflect the strategy I have outlined today. The targets are ambitious, but given our sharpened strategic focus, a rigorous operating plan and an intensified operational rhythm, we are confident that we will be able to deliver these targets. In the next three years, we want to achieve four things. First, we will reduce our financial leverage to between EUR5 billion and EUR5.5 billion. We have already announced that we are not refinancing $500 million senior debt this month. Our deleveraging will continue in the next three years and will be achieved in part by using the proceeds from the recently announced divestment of Aegon's Central and Eastern European businesses.

Secondly, we will implement expense savings of EUR400 million. As mentioned, we will reinvest part of the savings in growth initiatives. Third, we want to significantly increase free cash flow. Over the period 2021 to 2023, we target between EUR1.4 billion and EUR1.6 billion free cash flow cumulatively. Net remittances are expected to grow over time as credit losses level off and the benefit of our performance improvement plans comes through. Finally, our ambition is to increase capital distributions to shareholders. Capital distributions can take the form of dividends and buybacks. In principle, dividends are expected to grow in line with free cash flows.

Over the next two years, we anticipate muted dividend growth as we prioritize deleveraging and expect to undertake management actions to improve and de-risk the company. We expect a strengthened balance sheet and growing free cash flows to allow for a dividend of around EUR0.25 per share over 2023. Should there be surplus cash flow above and beyond that, then we would expect that to be returned to shareholders most likely via share buybacks unless we invest it in value creating opportunities.

I'm now coming to my concluding remarks. I am excited, I'm really excited about the opportunity of creating a leader in investment, protection and retirement solutions, a well-managed, well-respected company with attractive sustainable distribution to stockholders. I believe we can achieve that objective because we have deep capabilities, solid foundations and we are well-positioned with at skill positions in the right markets at the right time. I realize we have persistently underperformed in the past and I have shared our plan to change that.

Number one, focus on three core markets, three growth markets, and one global asset manager. Number two, value creating capital allocation with a clear distinction between financial assets and strategic assets. Number three, improved operational performance supported by a granular operating plan, organizational alignment with our strategy, and a new governance model with a new company rhythm. And four, a strong balance sheet without unwanted risks and attractive capital distributions to our shareholders. Quite frankly, this will need a lot of work, heavy lifting, it will take time and I realize there is an element of trust us in this plan. Some of you may think, what will be different this time. My answer to that is the following. This is a new team, an experienced team with a track record.

In the last six months, we've made choices, real ones like exiting traditional interest rate sensitive variable annuities and choosing core markets. We have acted by resetting reserves, resetting dividend, reducing leverage, paying down internal leverage, divesting The Transamerica Pyramid, merging our two large U.S. life insurance carriers TLIC and TFLIC, divesting our CEE operations in Stonebridge in the UK, unwinding our traditional Indian distribution channel, and focusing Transamerica Life Bermuda on less interest rate sensitive products. We realize that we are accountable to you on our journey and that we need to deliver. That is why we will move to quarterly disclosures as of next year and we want to be held accountable because we see the opportunity and because we are going to transform Aegon and because we are determined to win.

Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard, for your presentation. We will immediately continue with the presentation from Duncan Russell. He's our Chief Transformation Officer. Duncan will explain how the transformation of our core markets is going to be achieved and give you more details on what we will do in each of these markets. Thereafter, we will provide the opportunity to ask questions to Lard and Duncan on their presentations. Let me now hand over to Duncan.

Duncan, the floor is yours.

Duncan Russell {BIO 21983913 <GO>}

Thanks, Jan Willem. Hello, everyone and thank you for joining our 2020 Capital Markets Day. I'm going to provide you some more insight into the strategic choices that Lard has just outlined. This will not only give you more context on the strategy, but also explain the process that we went through when establishing our plan for the next years. I hope that you conclude that we are taking a rigorous approach that there is plenty of opportunity for Aegon to create value and that we as an organization are determined to do so.

Let me now take you to the first slide. There are three key messages I would like you to take away from the next 20 minutes. The first is that we have identified the value drivers of our businesses, and we'll track and actively manage those via rigorous and granular performance management. The second is that these differ for the financial assets versus the strategic assets, which means that they require a different management approach. And the third is that this focus on value has guided the choices we have made in our operating improvement plan, which over time will result in a significant reallocation of capital and in more sustainable and valuable business than we have today.

Let's get straight into it by moving to Slide 3. As Lard has touched on, we have made choices about where we will be looking to compete based on the strength of our market position and the opportunity to capture value. Essential to this will be a reallocation of capital from the financial assets to the strategic assets and also within the strategic assets as well. Aegon's equity story revolves around capital reallocation. Our priorities for the strategic assets are simple to outline, but obviously challenging to implement. We want to grow the customer base and expand the margin we are able to achieve.

I'll touch on our focus areas here in the coming minutes. For those assets that we have defined as financial assets, we will focus on maximizing a net present value of these businesses through active capital and risk management. We will not be looking to grow these businesses. Our primary aim will be to limit Aegon's risk exposure and to protect the capital base. Through an active management approach and philosophy, we will look to accelerate capital release if we see the potential to do so. We know that Aegon has a high cost of capital partly because of these assets and we are determined to reduce it. Finally, we have the growth markets where our capital allocation philosophy will be disciplined and to a degree opportunistic. I will not touch on these businesses in this presentation, but will instead focus on the strategic and financial assets.

Let me now talk you through what we are going to do with the strategic assets. On Slide 4, I'll dive into the U.S. market first, specifically the workplace solutions which consists of retirement plans, stable value solutions, and selected life and health products sold through the workplace. We have a very strong business here, the number nine position in the largest retirement market in the world that provides comprehensive record-keeping services to generate recurring revenues and create a platform through which we deliver additional products at the participant level. However, you're all aware that it is a competitive environment and we would like to reverse the margin compression that we have seen in the past.

For this reason, we're going to focus more intensely on small and midsize retirement plans where there are some strong market dynamics that play into the historical strength and presence of Transamerica, for example, via multiple and pooled employer plan propositions and it's also the place where we feel we can most effectively provide ancillary services such as managed account services and our proprietary investment solutions. We see an opportunity to offer more of these services to our broad customer base given our relatively low current penetration. This should allow us to grow revenues per participant over time. Our employee benefit business which distributes voluntary benefits at the workplace that compliments core group health offerings is very well positioned to expand distribution. We continue to enhance our product offering to bring more products to American workers who are looking to strengthen their life and health coverages at the workplace.

In total, we have identified 118 specific initiatives to drive the strategy forward. Some involve investing to transform our retirement processes to reduce acquisition costs and accelerate throughput like an initiative to optimize the auto rollover from retirement plans into individual accounts, other center on service features like a new employee benefits portal allowing more self-servicing by customers or on portfolio insights and our wider technology infrastructure so as to build an enhanced digital experience of participants and employers. Overall, we feel that this business is well placed and poised to grow as well as to improve its profit margins. We aim to be a top five player in terms of mid-market new sales and retirement plans going forward.

Let me now turn to individual solutions in the U.S. on Slide 5. Individual solutions is a strategic asset that mainly covers our individual life and health products and the mutual fund business. The annuity business is categorized as a financial asset. Individual solutions requires more of a turnaround and for this reason, we have made decisive product choices. The reality is that Transamerica's market position has significantly eroded over the last decade from a position well within the top 10 to 1 in aggregate outside of it and this is something we are looking to change. As mentioned, we will exit from several product lines. We'll move out of traditional interest rate sensitive living and debt benefit riders, the variable annuities and treat them as a financial asset.

We will also close a new business for individual health and fix index annuities. In these products, we have concluded that Transamerica will not be a long-term winner. Exiting will allow us to capture expense savings, but that won't be enough. The core driver of value will ultimately be our ability to return to growth in the products in which we are remaining and to do this, we need to invest in our capabilities. The largest single investment is in the modernization of our life insurance administration platforms. This is a key enabler to influence significant improvements and capabilities such as analytics, pricing and underwriting, as well as variablizing our cost base. We are stabilizing and focused on delivering an enhanced user experience with a strong service proposition. Delivering this will position us to grow our customer base and recapture a leading market position in the selected products.

We aim to gain market share in term life, index universal life, and final expense whole life and we think that we have some unique positions here to build upon. For example, we have access to very effective distribution with World Financial Group, which accounts for over 50% of our life sales and the majority of our index universal life sales. World Financial Group is a powerful distribution force with more than 43,000 agents that is growing fast even in the last year and is a valuable part of our group. In addition, our affiliated agency distribution will support the growth of our life sales. We will also build out our investment only and non-interest rate sensitive variable annuity accumulation propositions to provide attractive retirement solutions to our customers.

The turnaround of the life business will of course take some time and we have made choices. We are focusing on the areas where we are strongest and we'll support that with the necessary investments. We will return to a growing top-line and regain our historical share. Just as in the retirement business, there are a large number of comprehensive initiatives underpinning our plans, again ranging from initiative to launch of a new generation index universal life product to investments in automated straight through processing and underwriting.

Moving now on to the UK on Slide 6. We have here also a business of high potential value given its scale position in both the workplace and retail markets, and the potential to capture flows from both. In recent years, the growth hasn't come through and the overall margin has been relatively low. For this reason, the value that has been placed on this business by financial markets has also been depressed. Through our actions in the next few years, we would expect that to change. The most immediate priority for us is to enhance the user experience of our core platforms. This is most pressing in our retail business. Here, we have strong relationships with intermediaries and a partnership with nationwide building society, but the offering of our platforms needs to be modernized. This includes addressing current service strategies and gaps in propositions, both of which will require investment and will have a lag before being fully implemented. For this reason, we don't expect to see positive net flows from retail until '22 to '23, but thereafter, we aim to return to growth.

In the workplace business, however, we believe we have -- we already have a strong proposition particularly in the SME market. Here therefore, we expect to see continued positive net flows in the coming years. Digitalization and automation of our business will not only lead to an improvement in customer, advisor and employer engagement, it will also simplify processes and consequently improve efficiency and the profit margin of the business. To implement all of this, more than 100 initiatives are lined up and embedded in the operating plan of the UK business from digitalizing more correspondence to customers, to implementing unified frontend systems. We know this will require significant utilization of changed capacity, but with the new management team, we believe we can capitalize on the attractive market fundamentals and increase the share of earnings from the platform business, ultimately leading to a higher multiple.

Let me now turn to the Netherlands and asset management on Slide 7. In the Netherlands, we have an extremely strong position in our new business propositions. With these, we consider ourselves best placed in the market. We are leading in defined contribution and PPI solutions. We are a market leader in mortgage origination and servicing and are a leader in pension servicing. These businesses have an attractive marginal return on capital and they have a potential to grow significantly while benefiting from operational leverage. We intend to maintain this momentum and should the opportunity arise, would be willing to advocate additional capital in order to build out our presence in the value change. With Knab Bank, we also have a direct-to-consumer proposition that has high customer satisfaction and a clear identity and that will benefit Aegon as a retirement market increasingly individualizes. However, we do need to improve profitability here while ensuring that the bank is nimble and can capture opportunities in the retirement space.

With respect to asset management, we have a global presence and some strong capabilities, but our operating margin is low. Through an efficiency program, including investing in our technology capabilities to re-platform globally, we will look to approximately double the margin over the coming years and take us to a level that we think is more consistent with an asset manager of our size. We also have the potential to accelerate growth through a focus on greater penetration of EUR900 billion of revenue generating investments globally that Aegon has, a relatively small amount of which are managed by our in-house asset manager. Creating propositions which can capture an incremental portion of this will add value to the group.

Let us now turn to the financial assets on Page 8. In classifying businesses as financial assets, we are communicating to you the lens in which we will view them. Looking first at the variable annuities block, these have a total account value of about US$77 billion. As Allegra will later outline, the book consists of a well hedged GMWB block with a net amount of risk of US$1.7 billion and a GMIB/DB block with a net amount at risk of US$2.8 billion. It is not dynamically hedged at present. We are at the early stages of reviewing our IBDB hedging strategy so as to further reduce our risk exposure and protect our value over the long-term.

In the past, we have had competing objectives for the management of this product, but it is likely that we will shift to a singular objective on the economic liability and associated risk management philosophy. In so doing, we may experience an impact on our capital position and/or generation and then factor that into our capital appetite. But importantly, it will allow us to subsequently more actively consider a broad range of risk management approaches over the coming years, including potential external transactions. To line expectations, however, our intention is first to ensure that we are managing this book as effectively as we can as there are of course no guarantees with respect to any potential external considerations.

I'm now turning to Slide 9 on long-term care. The Long-term care book is long duration with the peak claimed year expected in 2033, and as Allegra will demonstrate, some well-understood sensitivity to benefit utilization, mortality and morbidity. We do not believe there is yet significant appetite from third parties to transfer the risk and in practice, we consider ourselves the best owner of these liabilities. In this respect, please note that Aegon has been a very active, early and successful manager of this block for a long period of time. That is something we will continue to do going forward and drive dedicated financial assets team. We are focused on taking management action so that we can ensure that our PDR, which is a statutory test based on best estimate assumptions and therefore can be considered as a present value of future cash flows has not moved materially negative and impact our RBC capital ratio in the coming years. Please note that we expect the PDR to be around zero by the end of 2020, and we will look to provide regular updates on the actions we are taking to manage this going forward.

Let me now move on to the Dutch Life book. The Dutch back book totaled EUR72 billion of liabilities with prudent actuarial assumptions, but the potential to improve on the capital management approach. A successful outcome for us here would be a transition to a low-risk cash generator paying predictable regular dividends with an overlay of active capital management that constantly assesses ways to accelerate value. Once achieved, we think we will be able to reduce our cost of equity and add value to our shareholders. In this slide, we've already significantly increased our focus on capital management and the intensity of those discussions. This is something we will continue to do in the coming months with the overall aim of producing stable predictable cash flows.

Moving on to Slide 11 on our operational plan. As Lard has already briefly mentioned, we have gone through a granular bottom-up process that initially generated 3,000 ideas on how the business could be improved. I know that sounds a lot, but as indicated earlier, these range from smaller automation proposals to product enhancements, to more structural initiatives such as creating dedicated teams to manage financial assets as mentioned earlier. All of these initiatives have gone through a rigorous prioritization and sequencing effort where we have assessed their strategic fit, determined the capital requirement and make sure that we have enough of the right resources to implement each and every step.

Here, we have made choices also. In the third column of the chart, I have summarized the impact of this process. Through prioritization, we have significantly reduced the capital requirements while maintaining the bulk of the financial benefits. Perhaps most importantly, we have analyzed in detail the resource requirements in aggregate and per initiative as we know we need to deliver on our plans. As a result of that, we have streamlined requirement for resources and we have made sure that the initiative owners who have accountability and responsibility to implement have sufficient capacity to do so. Consequently, our operating plan now contains over 1,100 initiatives, which are all detailed with milestones, KPIs, and implementation plans. It is to be expected that some of them will over deliver and some of them will under deliver. But in aggregate, they support our financial targets.

Taking this a step further, we can see on Slide 12 that improvement plans have been identified across the group in each of Aegon's businesses. All have initiatives to bring down expenses. This not only improves profitability, but it also gives us the space to invest in selective growth in our strategic assets as I have described earlier. As you would expect, there are no new business initiatives in our financial assets. However, we have identified measures that can increase revenue, for example, pricing initiatives like selective rate increases and long-term care, so as to improve the MPV and reduce risk exposures, that's also shown in the charts. Overall, I hope that this hints to you that we have an extensive and granular set of improvement initiatives underpinning our operating improvement ambition.

Let me summarize on Slide 13. Over the coming years, we will look to materially improve the operating performance of your company and we have detailed plans to do that. Of course, we know that, that will not be easy and will indeed take time. However, if we are successful and when combined with our plans to reduce the overall risk profile of the group, then the result will be a significantly better business three years from now than it is today. I want to be as explicit as possible on what I've said over the past 20 minutes. As a group, we have made choices and we'll become more focused in our capital allocation framework. In the U.S., we will look to leverage our strengths in small to mid-sized retirement plans to both grow and improve our margin via our ancillary offerings where we have historically lacked the peers. In addition, we are becoming more focused in our individual solutions business and our plan is to return to growth in these areas on the back of increased organizational agility and strong distribution.

In the UK, we are investing in our platforms in order to improve the offering, improve efficiency, and over time return to growth. In the coming years, as a result, Aegon will capture flows both in the workplace and retail markets. In the Netherlands, we have an extremely strong position. We will invest to ensure that this is at least maintained and the earnings contribution becomes larger. Our asset management business will look to build its global capabilities and improve its efficiency while capturing a greater share of assets under administration. We then have a series of financial assets where we will look to add value through dedicated teams with strong financial mindsets as we know our cost of capital is high. Our approach will be to maximize value under our ownership.

Having said that, should there be opportunities to free up capital via market solutions, we would obviously explore them. Backing all this, we have fairer and detailed plans with a realistic assessment of execution. The transformation of Aegon will take time. However, we think the combination of operational improvement, lower risk, lower leverage, growth from our strategic businesses, and capital management from our financial assets will lead to less volatile remittances from the units and will generate attractive medium term capital distributions for shareholders.

With that, I'd like to hand back to Jan Willem for the Q&A session.

Questions And Answers

A - Jan Willem Weidema {BIO 15133400 <GO>}

(Question And Answer)

Yes, Duncan. Several people are already lined up to ask their questions. Let me remind everyone that the first Q&A session is with Lard and Duncan. It is focused on Aegon's strategy and transformation journey. There will be a second Q&A session at the end of our Capital Markets Day. In that session, all presenters will be available to answer your questions including those on our financial targets. Let me please remind you at home that the question-and-answer session is only open to those analyst and investors who have pre-registered. After this event, the entire investor relations team is available to answer any other questions.

Before we go into the Q&A session, I have some important process information for those participants that have pre-registered for our Q&A session. At the moment, you are in a listen-only mode. You can add yourself to the queue by using the request to broadcast button. You can recognize this by the raise your hand icon on your screen. Once we have established that you have a good connection, you will be able to ask your question. Please make sure that you have your sound and camera on the entire time.

So with that, we'll start with the first question and the first question is coming from Mr.Cor Kluis from ABN AMRO.

Q - Cor Kluis {BIO 3515446 <GO>}

Yes. Hello, good morning. Cor Kluis, ABN AMRO and thanks for the presentation. Got a couple of questions. First of all, on the solvency operating -- solvency level target basically that you go for in the 50%. How did you determine that? I mean some other insurance companies in the Netherlands are targeting higher solvency ratios. And to what extent did you take into account possible outcome of the EIOPA review, which might be a little bit more favorable for mortgages? Because mortgages create some volatility of course of the Dutch solvency ratio. So that's my question on that. The level is high enough basically than the 50% operating level for solvency in the Netherlands. That's my first question.

My second question is, you already surprised us positively on the divestment process especially in Eastern Europe obviously. If you release capital faster by selling some books in (inaudible) operations. If you release capital faster, (inaudible) share buybacks, if there is extra capital available, is it already possible before 2023 or not? Or how do you look to that if you (inaudible) release capital faster? How that might be returned or what are the view on that respect?

And my last question is about interest rate risk. It's good that you want to reduce that somewhat further. And Duncan, like you mentioned on that, it might be GMDB books. What possible impact could there be on earnings? I think you also in the U.S. might reduce in the life business, the duration somewhat of your assets. Could you elaborate on that? Is that material or is it quite small as to one-off or is it more cash flow kind of thing? Those are my questions. Thank you.

A - Duncan Russell {BIO 21983913 <GO>}

Thank you, Cor for your questions. The first one if you allow me, we're going to park that for the second session when we have met in the room to focus on the capital management (inaudible) also addressed this in his presentation. So we'll start with your second question, which I'll hand to Lard. Lard, can I ask you to respond to Cor's second question?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thanks, Cor, and good morning and thank you very much for your question. Well, we're basically -- what we've done this morning and today is we've outlined our significant choices that we're making for the company, the focus for the company, the choices within the core parameter, the performance improvement plan and the like and what we are also seeing is we've launched also today our capital management policy. We should basically maintain the units at a good capital level, having a cash flow for between EUR0.5 billion and EUR1.5 billion and having a balance sheet in which we have a priority to deliver. We've also said that we want to improve the free cash flows and as the free cash flows improve over time, the capital returns also improve in the form of the dividends that will grow over time to our target of around EUR0.25 over the year 2023.

Now the reason we've given guidance that we said, well, the free cash flow can be a bit -- sorry, the dividend trajectory can be muted in the beginning, because we want to cater for a number of management actions and we want to cater for the fact that we're living in a pandemic environment. But in our capital policy, we're quite clear. If any X -- any cash emerges in surplus of what we need to do in order to fulfill our priorities like leverage reduction and like the management actions that we want to achieve, then that money is as a base case and as a priority available for shareholders in the form of buybacks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. The third question Cor, I'll slightly change that. The interconnect risk plan itself will be discussed in more detail by both Matt and Allegra. So with your question regarding the hedging of the interest rate risk on the variable annuity book, I'll pass to Duncan. Duncan, go ahead.

A - Duncan Russell {BIO 21983913 <GO>}

Good morning, Cor. The question on the GMIB and our plans there, as I indicated in the presentation, it's going to take a bit of time just to fully assess that and the reason we're doing that and taking that time is that there are choices we can make. There are various tax implications we have to understand and of course, there will be regulatory and accounting implications as well. And we're going to take 6 to 12 months to do that and we'll come back to as soon as we have the full implications of that fully understood. The reason we're doing it is it could be a key enabler for us from a strategic perspective, but we first want to outline and flush out all the details, and I will come back to you with that. Back to you, Jan Willem.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Does that answer your question, Cor? Thank you. And we'll go on to the next question which is from Robin van den Broek from Mediobanca. Robin, go ahead.

Q - Robin van den Broek {BIO 17002948 <GO>}

Good morning, everybody and thank you for the presentation so far. I hope you can hear me. My first question is on the financial asset segregation. I'm just wondering in the past, I think the same bucket was sort of called manage for value. I think the reasoning behind that was sort of similar to what you present today. I'm just wondering what difference can we expect from this categorization? Is the chances of more rigorous action here are now more likely? In the past, you've also talked about back book deals in the Netherlands. I was just wondering if that's still on the table on the back of this segregation? And also, whether that would have or could have an impact on your (inaudible) of your headquarters given that if you would do a back book deal in Netherlands that would severely reduce your earnings capacity within that region?

And the second question, I'm not sure whether this is going to be part for the afternoon session. But I think, you've already probably something more around EUR0.14 for 2021 and EUR0.17 for 2022. So I'm just wondering if the free cash flow guidance you've given on Slide 12 are a good indication of the dividend trajectory we should expect towards 2023?

My last question is on leverage. Lard, I think with H1, you alluded to -- leverage was too high, that was fairly simple and I think you've addressed that with this target, but I think you also said that your fixed charge cover was not accommodating enough. And I'm just wondering moving a little bit further out on your plan in 2026, a lot of your qualifying hybrids for Solvency II will lose eligibility, but they are pretty cheap in your funding structure. I was just wondering to what extent are those two things going to bite each other along the way? And if you need to do tender offers basically to address that issue in this management plan? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Robin. Indeed, some of your questions are parked for the second session. I'll make sure that Matt addresses those when he comes up to the Q&A table. Let's start with the second question, Lard, on the different trajectory and I know we're not going to answer that in great detail at the moment or maybe you can shed some light on our high-level thinking here. And then afterwards, Robin's first question about -- I will strategically look at the businesses in our core markets. Lard, it's yours?

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Jan Willem. Yes, Robin, it's good to see you this morning. First on the dividend trajectory, our entire plan is aimed at improving the free cash flows through a very granular plan and operating actions that we're going to take. And as a result, when the free cash flows grow, we aim to also grow the dividend per share to our stockholders with a target of EUR0.25 over the year 2023 -- around EUR0.25 for the year 2023 and that's our target for that point. Now, we said that in the meantime, what we aim to do is we aim to run the cash balance as a holding company at the higher end of the range in the beginning because we want to have financial flexibility first of all, because we need to be mindful that we're in the middle of a pandemic environment. That's number one. Number two, we want to delever the balance sheet and number three, we want to be -- have some financial flexibility for management actions that we wish to take. But as I said earlier this morning, any cash that would emerge, things would go better than we expect. And anything that would emerge beyond what we need for all this, then that as a base case would be available for distribution to stockholders.

To your second point about the classification and what is different, if I may paraphrase at this time. I think what is different is that you and I both know that this business is about execution, about taking action and I would say that we've taken significant choices today, both the focused countries, the markets that we're going to focus on, but also within the markets, we made significant choices on making sure that we classify businesses as strategic assets or financial assets. And don't forget that we've classified 43% of our own funds as financial assets that I would argue is pretty significant. We've also made clear decisions about closing -- for closing blocks for new sales, et cetera, and then we're going to manage them with dedicated teams. We have a very strong and granular operating plan in place to ensure that we know exactly what to do, when to do it and who's responsible for delivery and we've moved the entire company to a completely different execution rigor and organizational rhythm. Now all of that combined should tell you that this team is willing and is already taking a lot of action. And if you look at the last six months, we have really focused on executing quickly on things that we felt we needed to do and wanted to do very quickly also to demonstrate to all of you that we are a team that is taking action and we'll continue to take action to drive the cash flows up and make this in a far better and enduring franchise.

Your final point about two other points about potential back book deals in the Netherlands, now Aegon Life is a very large balance sheet. It's classified as a financial asset and we're going to run it as a disciplined and rational owner where we aim to maximize the cash flows that -- and optimize the cash flows that we can get out of this very large balance sheet, and we will aim for maximizing the MPV of those cash flows, but it's a very valuable asset. It provides good cash flows, good remittance capabilities for us as a group. If we then look at your final question which is about domiciliation, we have no plans to redomicile our company.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. That brings us to our next questions and that is from Albert Ploegh from ING. Albert, please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning all and thank you all for the presentation. A few questions from my end. The first one is on the business plan, which is based on the current parameter. You talked about sharpening of the focus and reallocation of capital between the financial assets and strategic growth assets. So I was wondering, can you maybe stipulate also how much, let's say, in terms of focus for assets that could be disposed as a percentage of your own funds with the financial assets already you alluded to 43%? Because I think there's probably some fantasies that in the plan you could potentially accelerate by potential further disposals.

And then also tying into that the leverage question. You moved away from, let's say, ratio to an absolute level. I think it's very clear for us all. Can you maybe provide a bit thinking behind that? Why in absolute level you feel more comfortable than steering on the ratio? And secondly, if I look at the disposal already announced on the CEE operations and target you are now focused on the EUR5 billion to EUR5.5 billion plus to retain cash flows from the business plan, you're basically effectively there I guess more or less on the 2023 horizon. Is that a fair conclusion and should we therefore indeed assume any further disposals assuming of course being positive (inaudible) therefore flow back to shareholders through buybacks or could there also be other ideas with that? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Albert. Your first question sounded like two questions in one. So I'm going to cut it off into pieces. I'll first ask Duncan to elaborate on the financial significant -- significance of financial assets versus strategic assets and how we expect that to develop over time. And then I'll ask Lard to address your questions on how we think about potential divestments and what that could mean for our financial plans. So first, over to you, Duncan, on the financial significance of the financial assets and strategic assets.

A - Duncan Russell {BIO 21983913 <GO>}

Thanks, Jan Willem. In the presentation, we outlined the split of the own funds of financial assets versus strategic assets and the split of the earnings. And the capital generation is roughly proportional to that and is likely to remain that case throughout the plan and the reason for that is we intend to invest in the strategic assets in order to drive growth. And now we're intending to maximize the net present value of the financial assets and that could in some cases results in an acceleration of cash flow, but behind that, the earnings on the enforced [ph] block of the strategic assets, we would anticipate to increase and the earnings on the enforced [ph] block from the financial assets we would anticipate to decrease over time. The lens in which we've given you which is financial assets versus strategic assets is meant to indicate to you how we intend to behave. On the financial assets, we intend to be a disciplined financial owner and maximize the net present value of cash flows. On the strategic assets, we think the best way to create value for our shareholders is to invest in our propositions, invest in the franchise, generate growth, and grow earnings over time. Back to you, Jan Willem.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Lard, can I ask you to elaborate on our thinking about the assets, our strategic or financial assets outside of our core markets and what we would do in case of a potential disposal?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you very much, Jan Willem. Outside of our core markets and the growth markets that we choose to focus on the coming years, we have a presence in other markets and where we are subscale or where the markets are not that big or where we have a niche positions, we aim to -- our plan is to run them very tight capital, very disciplined, and with a biased exit over time. Now if -- your second piece of your question is what would you do if potential disposes would take place and what would happen with the proceeds? I'd go back to our capital management policy, which is that we want the units to be well capitalized, we want to have a cash buffer between EUR0.5 billion and EUR1.5 billion. We want to make sure that we can deliver on our priorities which is to delever the balance sheet, which is to take some -- have some financial flexibility to take management action where we wish to and reduce the risk profile of the company further and that we are also taking into account we're living in a pandemic environment. We have a growing dividend per share as the free cash flows grow to the target point of EUR0.25

of the year 2023, around that target point. And anything in excess of that would emerge over time, as a priority, it goes back to stockholders in the (inaudible) or buybacks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Albert, if you allow me, I'll pass the leverage target question and how we set that on to (inaudible) start with that in the second Q&A session. So with that, I'm going to go to the next question, which is from Andrew Baker from Citi. Andrew, we can see you. Go ahead.

Q - Andrew Baker {BIO 3694545 <GO>}

Great. Hi, everyone. Thanks for taking my questions. So three for me, please. The first is on the financial assets in the U.S. You mentioned for the VA book likely needs to be hedged first. The OTC book sounds like you're the best owner in the near-term at least. What's your thinking around fixed annuity book and do you see potential active buyers for this type of business right now?

And then secondly, on the Netherlands, can you comment on the thinking behind having a core business that the majority of the capital generation falls into the financial asset bucket? Was there ever any thinking for the Netherlands not to be considered core? And then finally, on the remittance target, does this take into account the potential downside risk from the full dynamic hedging strategy at the GMIB/DB book? And if not, can you just give us a sense of sort of how material this hit to capital generation or remittances could be? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Andrew. Great questions. We'll start off with your middle one which we'll ask to Lard. So can you elaborate on the position of the Dutch business please, Lard?

A - Lard Friese {BIO 17008174 <GO>}

Yes, Andrew. Thank you very much for your question. We have made choices and for the -- in which countries we want to focus and one of the core markets for us is the Netherlands. Within the Netherlands, we also made significant choices. We've made a significant choice to say that Aegon Life which will close for new business largely is going to be designated a financial asset and the other businesses, which are let's say the mortgage origination platform, the contemporary pension business and the bank are going to be strategic assets. Now with respect to financial assets, I'd like to reiterate that we are going to own that and run that as a disciplined financial owner. It is a very large balance sheet with long liabilities and we seek to optimize and maximize the MPV of the cash flows that kind of emerge from that asset, which is a very attractive feature for remittance capability to the group over time.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Lard. The next two are for Duncan. Duncan, can you elaborate on our plans on the fixed annuity book as well as on the legacy VA book?

A - Duncan Russell {BIO 21983913 <GO>}

Thank you. Thanks again, Jan Willem. Hi, Andrew. On the fixed annuity book, we have classified that as a financial asset and as Lard just said with all financial assets, we intend to be a discipline financial owner looking to maximize the net present value of the cash flows. So this will be no different to the rest of the financial assets in that respect. With respect to your question of does our remittance plan take into account hedging of the legacy VA book, just want to reiterate that we are going to take some time to understand the full implications of transitioning our GMIB/DB book on to a dynamic hedge basis. We already do that for GMWB book and the reason we're going to take some time, there are some choices we can make there. But part of the reason as Lard outlined that we're operating at the top end of our capital ambition in the short term is to allow us to take management actions such as this to add value to our shareholders. Back to you, Jan Willem.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. That brings us to our next question that's from Fulin Liang, which is from Morgan Stanley. Fulin, we can see you. Go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Thank you very much. I have three questions. So the first one is assuming if you could achieve all the target you've set out in 2023, what would be the ROE of the business in your core market? So that's the first one. And then secondly, how should we think about the shape of the free cash flow within these three years until 2023? Because if I think about it, you seem to turn off the taps from quite a few business lines in terms of the cash generation, because you are closing to new business. But then at the same time you -- the expense -- the 650 million extra cost will be front-end loaded. And then as Duncan said, you would expect some of the initiative to take time to materialize. So in that sense, if we combine these three together, actually should I expect it relatively back end loaded free cash flow in the three years? So that's my second question. Thirdly is because you identify China as the -- as one of the key growth market, but in China, I mean you have a JV partner obviously and also you're not, let's say, a material player in China. Is there anything that you want to like say buyout or partner and then to invest more actually to grow in that market? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Fulin. Your ROE question, I'm going to park for the second Q&A session, if you allow me, because we want to focus on the strategy and transformation process. Shape of the free cash flows is linked to the strategic choices that we're making. So Duncan, can I ask you to take that question?

A - Duncan Russell {BIO 21983913 <GO>}

Yes. Thank you, Jan Willem. There'll be quite a bit of details this afternoon in Matt's -- this morning in Matt's presentation later on the detailed shape of the cash flows. But broadly speaking, we've indicated to you that we are planning to operate at the top end of our capital ambition. We've indicated to a detailed and thorough operating plan, which indicated to the intention to take management action and choices within the perimeter between the financial and strategic assets, and the reason we're doing that is that we believe that at the end of this plan, Aegon will be in a much better place, lower risk, capital reallocated out of financial assets into strategic assets, and as a result of that, a much more resilient franchise. I think I'll stop there.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Lard, can you to elaborate on our position in China, please?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Fulin for your question. On China, we're -- China is a growth market and as you know and we have chosen China as one of the growth markets that we want to focus on for a number of reasons. The first one is we want to take care of today, but we also want to take care of tomorrow and this is a very promising growth market. We have joint ventures on the life insurance side and on the asset management side. Both joint ventures are doing very well. They are profitable, they are growing fast and are capturing the opportunities that we clearly have in China. Now in the coming years, we want to work and closely work together with our joint venture partners there. We're very pleased in having those partnerships to continue our progress. We want to participate in the emerging pension market in China and to one point you made is that indeed on my slide I said that potentially we want to also use inorganic options as options to grow further in our growth markets, but I want to make a very clear point there.

M&A is not a priority today. We are we are really fully focused at executing on the plan that we have outlined today and making sure that we improve the free cash flows of the company, reduce the risk profile of the company, make sure that the dividend starts to grow, and then we obtain our target of around EUR0.25 for over the year 2023, and that we've returned capital to stockholders. But if M&A in the future would come back to the table, we would always assess it against very strict financial and non-financial criteria and obviously, we will always assess it against our priority and base case, which is returning the capital that we would have in excess back to stockholders.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Before we go to the next question from Farquhar Murray, we just like to remind everyone that we're focusing on the strategy and transformation piece of this Capital Markets Day and we're eager to hear about the financial side, which both Matt and Allegra will cover in their presentation with a lot of great details. So with that comment, let's move on to Farquhar Murray from Autonomous. Farquhar, we can see you. Go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good morning, gentlemen. I've just three questions, if I may. Firstly, a clarification on Albert's question a little bit. The statement that the proportion of capital generation should remain stable over the planning period. I just understand that that's presumably based on the runoff pattern plus the management actions you've built into the plan and does that carry through to a stable portion of the capital base over the same period? And then within the scenarios you think are probably realistic, how much do you think you could move from that stable pattern if you manage to achieve some realistic disposal options around or acceleration options on your plan?

Then secondly, turning to the strategic asset side of the business, where do you exactly see the greatest opportunities for investments? Just wondering what the largest components of the investments you anticipate there? And on the inorganic component, obviously, not the priority, but given you had a very successful disposal of CEE, does that give you leeway on the inorganic component from here? And then, finally, Duncan gave some excellent benchmarking commentary on the operational side of things. And when we look at the U.S. workplace pensions mark, can you just give us a bit more color on where you sit versus peers and what you actually think can make the difference to close the gaps there, particularly on the ancillary revenue side? Thanks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. We'll start with your second question on opportunities for strategic assets and whether you get extra space. Lard, I would like to give that one to you, please.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you very much, Farquhar and good to see you again. We've made choices into strategic assets in the U.S., the UK, and in the Netherlands. I would argue, if you look at the investment of the strategic assets, I see ample opportunity to work in the U.S. and in the UK, also in the Netherlands, but I would say from all three in the U.S., it's the largest market. And with the workplace solutions business and the individual solutions business line that we aim to focus on, we believe that there is ample opportunity to invest and to also expect greater growth and margin expansion. The same goes for the U.S. -- for the UK business where we should invest in the customer experience and the experience with the platform, and as a result, be able to expand our markets to ancillary products.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Duncan, can I ask you to elaborate on the that, specifically on our position in the U.S. workplace market, please?

A - Duncan Russell {BIO 21983913 <GO>}

Sure. Hi, Farquhar. Dealing with your question with respect to retirement market, I think you're asking how we're benchmarked versus peers with respect to the plans I outlined today on ancillary products as an example. Our ambition and what I hope you take away from the presentation is that we intend to become more than a record keeper in the U.S. retirement market and drive our margin up as a result whilst benefiting from the structural growth in that market, which is the largest retirement market in the world. And I outlined a couple of examples of the ancillary products we were looking to push going forward or expand in going forward, for example, manager wise where our penetration is quite low today, it's roughly 5% of our customer base, utilizes manager advice and the share of proprietary assets in our funds, which is roughly 10% today, which is also low versus our peer group. And on both those things, we will be looking to significantly increase the penetration over the coming period and help therefore our margin.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Duncan. Could I also pass the next one to you on how our plans -- strategic plans for strategic assets and financial assets are expected to impact the cash flows that we get from both books?

A - Duncan Russell {BIO 21983913 <GO>}

Yes, and it's a difficult question, Farquhar, because -- and the reason for that is outlined to you that today, we are going to -- we plan to invest in the strategic assets and as you're aware in certain markets, as you invest and achieve growth, you do encounter some new business strength. So we would expect to see the earnings on the enforced book of the strategic assets increasing, but there would be greater new business strength and that was behind -- that was the rationale behind the answer I gave earlier that broadly speaking would expect it to be pretty stable.

The other part -- the other difficult side of it is on financial assets. We will have in place dedicated teams and we do intend to be rational, disciplined financial owners of those businesses, looking to accelerate where possible cash flow and then also if possible increase our cash flows. So it could actually be the case and that's not -- if we're successful there, you could actually see higher cash flow from the financial assets in the short term depending on what management action we take and that's why it's quite difficult to give you a precise outlook as to the proportion between strategic and financial assets because to a degree, it depends on the success of our behavior. Hope that answers it.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Thank you, Farquhar. The next question is from Steven Haywood from HSBC. Steven, we can see you. Go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Good morning, everyone. And just focusing on a couple of business lines, the Dutch non-life business. Duncan, that was mentioned in the presentation, can you allocate it to strategic or financial in your definition? And then in the UK, I believe there's a remaining legacy annuity portfolio and is there anything else that is outside of the strategic asset definition? Then finally, from -- on the potential for SCR releases going forward, I think you mentioned 50 million to 100 million from the Dutch Life back book run off. But if you're closing a lot of capital intensive products in the U.S. and other areas, is there any potential additions to SCR releases going forward and therefore, improving your Solvency II capital generation over the long term as you shift towards a more capital like new business profile? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Steven, firstly, the UK question. Duncan, would you be so kind to answer that one?

A - Duncan Russell {BIO 21983913 <GO>}

Sure. Hi, Steven and thanks for the question. On the UK, we've classified the UK as a strategic asset and as I think as a theme of the Capital Markets Day is that we've made choices. We've classified the UK as a strategic asset because we like the UK market. We think it's resilient. We think it's growing and Aegon has a scale position both in workplace and retail from which we can generate value for our shareholders. And we've also said that we need to invest in our propositions in order to maximize the value from that, and we're looking to improve efficiency. And we believe that the combination of investment and our propositions to drive growth, plus improved efficiency and benefiting from operational leverage as a result will allow us to achieve a valuation multiple on that UK business that we do see in the market almost irrespective of the underlying business model. That doesn't mean that we will not also be looking at ways to optimize our capital structure and our overall expense structure where appropriate. It just means that we make choices about where to prioritize given the scale of the change agenda we've outlined to you today. A recent example in the UK, for example, is we did disposal of the Stonebridge, which I think is an indication that even within strategic assets where there is opportunity to add value through a backup management, we will take it.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Can I also ask you to answer the question about how our required capital in the US financial assets is expected to develop?

A - Duncan Russell {BIO 21983913 <GO>}

Yes. Okay. On the U.S., Steven, we've classified long-term care and the variable annuity businesses financial assets and as Lard outlined to you, we've also made significant choices with respect to new business, for example, exiting from interest rate sensitive traditional variable annuity business. As you point out in so doing that should mean that the level of new business strain in the financial assets is non-existent and as a result, we will get a natural runoff of those liabilities. They are long tail liabilities just as in the Dutch back book and we will look for ways to maximize the net present value of those cash flows.

On the other side, we are indicating to that we intend to invest in the strategic assets and we have significant ambitions there, and I outlined to you that we intend to become a top-five player in the U.S. Life market in the products we've chosen to participate in, and we also intend to be a top-five player in the U.S. mid-market retirement new sales. And that will obviously result in some new business strength. So therefore, what we do anticipate is an SCR release from the financial assets, but reinvestment into the growth assets and that's part of the reallocation of capital that underpins our equity story.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Which of you two would like to answer the question on the Dutch new life business?

A - Lard Friese {BIO 17008174 <GO>}

Yes. I can do that. On Dutch new life, we've classified -- hi, Steven, it's good to see you, we classified the non-life business as part of the strategic assets because it's a component of the overall contemporary pension, a defined contribution pension plan and salary employee benefit solutions. It's largely disability and accident book, which is in that space natural ancillary products to sell to employees of companies.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Steven. The next question is from Nick Holmes from Societe Generale. Nick, we can see you now. Go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Just one question, please, which is can you take us through the rationale for keeping the U.S. business? I know it's a huge part of the group, but what are the synergies with Netherlands and the UK and why not divest it and redeploy the capital? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Lard, can you take that one, please?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Nick. Good morning and thank you for your question. We've made choices today, significant ones. We've chosen to focus on three core markets, three growth markets, and one global asset manager. We have developed a very granular operating plan where from which we derive our financial targets, but also from which we derive the conviction that we can execute. We've aligned the organizational rhythm. We've tightened governance and we've taken action already, and we believe that this plan is the best plan to create a very attractive shareholder value. I would like to point out one thing, we have -- this morning, I've said in my presentation that we're addressing under performance that was -- that Aegon has demonstrated over a number of years. We've done a lot of analysis on what caused that under performance. One thing did not cause the under performance and that is the fact that we have all these assets under one roof.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Ladies and gentlemen, this was our last question of the first Q&A session. We'll be back with a second Q&A session after all presenters have shared their presentations with you. We will make sure that the financial questions from this session will be answered in the next one. We'll be away for a short break of about five minutes. So please be with us quickly again for the next presentation from Allegra. Thank you.

Welcome back everyone for the second part of our Capital Markets Day. We now continue with the presentation from our CRO, Allegra van Hovell Patrizi. I welcome her with great pleasure for a first appearance at Aegon Capital Markets Day. Allegra will discuss how we manage risk in Aegon and how this contributes to our investment proposition. Her presentation will be followed by the presentation from our CFO, Matt Rider and following that will be the second Q&A session.

Let me now hand over to Allegra.

Yes, Duncan. Several people are already lined up to ask their questions. Let me remind everyone that the first Q&A session is with Lard and Duncan. It is focused on Aegon's strategy and transformation journey. There will be a second Q&A session at the end of our Capital Markets Day. In that session, all presenters will be available to answer your questions including those on our financial targets. Let me please remind you at home that the question-and-answer session is only open to those analyst and investors who have pre-registered. After this event, the entire investor relations team is available to answer any other questions.

Before we go into the Q&A session, I have some important process information for those participants that have pre-registered for our Q&A session. At the moment, you are in a listen-only mode. You can add yourself to the queue by using the request to broadcast button. You can recognize this by the raise your hand icon on your screen. Once we have established that you have a good connection, you will be able to ask your question. Please make sure that you have your sounds and camera on the entire time.

So with that, we'll start with the first question and the first question is coming from Mr.Cor Kluis from ABN AMRO.

Q - Cor Kluis {BIO 3515446 <GO>}

Yes. Hello, good morning. Cor Kluis, ABN AMRO and thanks for the presentation. Got a couple of questions. First of all, on the solvency operating -- solvency level target basically that you go for in the 50%. How did you determine that? I mean some other insurance companies in the Netherlands are targeting higher solvency ratios. And to what extent did you take into account possible outcome of the AOP [ph] review which might be a little bit more favorable for mortgages? Because mortgages create some volatility of course of the Dutch solvency ratio. So that's my question on that. The level is higher enough basically than the 50% operating level for solvency in the Netherlands. That's my first question.

My second question is you already surprised us positively on the divestment process especially in Eastern Europe obviously. If you release capital faster by selling some books or -- in the financial assets you've got some operations. If you release capital faster, you [ph] share buybacks if there is extra capital available? Is it already possible before 2023 or not? Or how do you look to that if you dividend the first release capital faster? How that might be returned or what are the view on that respect?

And my last question is about interest rate risk. It's good that you want to reduce that somewhat further. And Duncan like you mentioned on that, might be GMDB books. What possible impact could there be on earnings? I think you also in the U.S. might reduce in the live business, the duration summit of your assets. Could you elaborate on that? Is that material or is it quite small as to one-off or is it more cash flow kind of thing? (inaudible) questions. Thank you.

A - Duncan Russell {BIO 21983913 <GO>}

Thank you, Cor for your questions. The first one if you align me, we're going to park that for the second session when we have met in the room to focus on the capital management zones, because Lard also addressed this in his presentation. So we'll start with your second question, which I'd hand to Lard. Lard, can I ask you to respond to Cor's second question?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thanks, Cor and good morning and thank you very much for your question. Well, we're basically -- what we've done this morning and today is we've outlined our significant choices that we're making for the company, the focus for the company, the choices within the core parameter, the performance improvement plan and the like and what we are also saying is we've launched also today our capital management policy. We should basically maintaining the units at a good capital level, having a cash flow for between EUR0.5 million and EUR1.5 billion and having a balance sheet in which have a priority to deliver. We've also said that we want to improve the free cash flows and as the free cash flows improve over time, the capital returns also improve in the form of the dividends that will grow over time to our target of around EUR0.25 over the year 2023.

Now the reason we've given guidance that we said, well the free cash flow can be a bit -- sorry, the dividend trajectory can be muted in the beginning, because we want to cater for a number of management actions and we want to cater for the fact that we're living in a pandemic environment. But in our capital policy, we're quite clear. If any X -- any cash emerges in surplus of what we need to do in order to fulfill our priorities like leverage reduction and like the management actions that we want to achieve, then that money is as a base case and as a priority available for shareholders in the form of buybacks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. The third question Cor, I'll slightly change that. The interconnect risk plan itself will be discussed in more detail by both Matt and Allegra. So with your question regarding the hedging of the interest rate risk on the variable annuity book, I'll pass to Duncan. Duncan, go ahead.

A - Duncan Russell {BIO 21983913 <GO>}

Good morning, Cor. The question on the GMIB and our plans there, as I indicated in the presentation, it's going to take a bit of time just to fully assess that and the reason we're doing that and taking that time is that there are choices we can make. There are various tax implications we have to understand and of course, there will be regulatory and accounting implications as well. And we're going to take 6 to 12 months to do that and we'll come back to as soon as we have the full implications of that fully understood. The reason we're doing it is it could be a key enabler for us from a strategic perspective, but we first want to outline and flush out all the details, and I will come back to you with that. (inaudible)

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Does that answer your question Cor? Thank you. And we'll go on to the next question which is from Robin van den Broek from Mediobanca. Robin, go ahead.

Q - Robin van den Broek {BIO 17002948 <GO>}

Good morning, everybody and thank you for the presentation so far. I hope you can hear me. My first question is on the financial asset segregation. I'm just wondering in the past, I think the same bucket was sort of called manage for value. I think the reasoning behind that was sort of similar to what you present today. I'm just wondering what difference can we expect from this categorization? Is the chances of more rigorous action here are now more likely? In the past, you've also talked about back book deals in the Netherlands. I was just wondering if that's still on the table on the back of this segregation? And also whether that would have or could have an impact on your under document soliation [ph] of your headquarters given that if you would do it back book deal in Netherlands that would severely reduce your earnings capacity within that region?

And the second question, I'm not sure whether this is going to be part for the afternoon session. But I think you've already probably something more around EUR0.14 for 2021 and EUR0.17 for 2022. So I'm just wondering if the free cash flow guidance you've given on Slide 12 are a good indication of the dividend trajectory we should expect towards 2023.

My last question is on leverage. Lard, I think with H1, you alluded to -- leverage was too high, that was fairly simple and I think you've addressed that with this target, but I think you also said that your fixed charge cover was not accommodating enough. And I'm just wondering moving a little bit further out on your plan in 2026, a lot of your qualifying hybrids for Solvency II will lose eligibility, but they are pretty cheap in your funding structure. I was just wondering to what extent are those two things going to bite each other along the way? And if you need to do tender offers basically to address that issue in this management plan? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Robin. Indeed, some of your questions are parked for the second session. I'll make sure that Matt addresses those when he comes up to the Q&A table. Let's start with the second question Lard on the different trajectory and I know we're not going to answer that in great detail at the moment or maybe we can shed some light on our high-level thinking here. And then afterwards, Robin's first question about -- I will strategically loot at the businesses in our core markets. Lard?

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Jan Willem. Yes, Robin, it's good to see you this morning. First on the dividend trajectory, our entire plan is aimed at improving the free cash flows through a very granular plan and operating actions that we're going to take. And as a result, when the free cash flows grow, we aim to also grow the dividend per share to our stockholders with a target of EUR0.25 over the year 2023 -- around EUR0.25 for the year 2023 and that's our target for that point. Now, we said that in the meantime, what we aim to do is we aim to run the cash balance as a holding company at the higher range in the beginning because we want to have financial flexibility first of all, because we need to be mindful that we're in the middle of a pandemic environment. That's number one. Number two, we want to delever the balance sheet and number three, we want to be -- have some financial flexibility for management actions that we wish to take. But as I said earlier this morning, any cash that would emerge, then things would go better than we expect. And anything that would emerge beyond what we need for all this, then that as a base case would be available for distribution to stockholders.

To your second point about the classification and what is different, if I may paraphrase at this time. I think what is different is that you and I both know that this business is about execution, about taking action and I would say that

we've taken significant choices today, both the focused countries, the markets are going to focus on, but also within the markets, we made significant choices on making sure that we classify businesses as strategic assets or financial assets. And don't forget that we've classified 43% of our own funds as financial assets that I would argue is pretty significant. We've also made clear decisions about closing -- for closing blocks for new sales, et cetera and then we're going to manage them with dedicated teams. We have a very strong and granular operating in place to ensure that we know exactly what to do, when to do it and who's responsible for delivery and we've moved the entire company to a completely different execution rigor and organizational rhythm. Now all of that combined should tell you that this team is willing and is already taking a lot of action. And if you look at the last six months, we have really focused on executing quickly on things that we felt we needed to do and wanted to do very quickly also to demonstrate to all of you that we are a team that is taking action and we'll continue to take action to drive the cash flows up and make this in a far better and during franchise.

Your final point about two other points about potential beck book deals in the Netherlands, now Aegon Life is a very large balance sheet. It's classified as a financial asset and we're going to run it as a disciplined and rational owner where we aim to maximize the cash flows that -- and optimize the cash flows that we can get out of this very large balance sheet, and we will aim for maximizing MPV of those cash flows, but it's a very valuable asset. It provides good cash flows, a good remittance capabilities for us as a group. If we then look at your final question, which is about domiciliation, we have no plans to redomicile our company.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. That brings us brings us to our next questions and that is from Albert Ploegh from ING. Albert, please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning all and thank you also for the presentation. A few questions from my end. The first one is on the business plan, which is based on the current parameter. You talked about sharpening of the focus and relocation of capital between the financial assets and strategic growth assets. So I was wondering, can you maybe stipulate also how much let's say in terms of focus for assets could be disposed as a percentage of your own funds with the financial assets already you alluded to 43%? Because I think there's probably some fantasies that in the plan you could potentially accelerate by potential further disposals.

And then also tying into that the leverage question. You moved away from let's say ratio to an absolute level. I think it's very clear for us all. Can you maybe provide a bit thinking behind that? Why in absolute level you feel more comfortable than steering on the ratio? And secondly, if I look at the disposal already announced on the CE operations and target you are now focused on EUR5 billion to EUR5.5 billion plus to retain cash flows from the business plan. You're basically effectively there I guess more or less on the 2023 horizon. Is that a fair conclusion and should be therefore indeed to assume any further disposals assuming of course being positive therefore flow back to shareholders through buybacks or could there also be other ideas with that? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Albert. Your first question sounded like two questions in one. So I'm going to cut it off into pieces. I'll first as Duncan to elaborate on the financial significant -- significance of financial assets versus strategic assets and how we expect that to develop over time. And then I'll ask Lard to address your questions on how we think about potential divestments and what that could mean for our financial plans. So first, over to you Duncan on the financial significance of the financial assets and strategic assets.

A - Duncan Russell {BIO 21983913 <GO>}

Thanks, Jan Willem. In the presentation, we outlined the split of the own funds of financial assets versus strategic assets and the split of the earnings. And the capital generation is roughly proportional to that and is likely to remain that case throughout the plan and the reason for that is we intend to invest in the strategic assets in order to drive growth. And now we're intending to maximize the net present value of the financial assets and that could in some cases results in an acceleration of cash flow, but behind that the earnings on the enforce block of the strategic assets, we would anticipate to increase and the earnings on the enforce block from the financial assets we would anticipate to decrease over time. The lens in which we've given you which is financial assets versus strategic assets is meant to indicate to you how we intend to behave. On the financial assets, we intend to be a disciplined financial owner and maximize the net present value of cash flows. On the strategic assets, we think the best way to create value for our shareholders is to invest in our propositions, invest in the franchise, generate growth, and grow earnings over time. Back to you Jan Willem.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Lard can I ask you to elaborate on our thinking about the assets of strategic or financial assets outside of our core markets and what we would do in case of a potential disposal?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you very much, Jan Willem. Outside of our core markets and the growth markets that we choose to focus on the coming years, we have a presence in other markets and where we are subscale or where the markets are not that big or where we have a niche positions, we aim to -- our plan is to run them very tight capital, very disciplined, and with a biased exit over time. Now if -- your second piece of your question is what would you do if potential disposes would take place and what would happen with the proceeds? I'd go back to our capital management policy, which is that we want the units to be well capitalized, we want to have a cash buffer between EUR0.5 billion and EUR1.5 billion. We want to make sure that we can deliver on our priorities which is to deliver the balance sheet, which is to take some -- have some financial flexibility to take management action where we wish to and reduce the risk profile of the company further and that we are also taking into account we're living pandemic environment. We have a growing dividend per share as the free cash flows grow to the target point of EUR0.25 of the year 2023 around that target point. And anything in excess of that would emerge over time, as a priority, it goes back to stockholders in the form of variances or buybacks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Albert, if you allow me, I'll pass to the leverage target question on how we set that to nestle to start with that in the second Q&A session. So with that, I'm going to go to the next question, which is from Andrew Baker from Citi. Andrew, we can see you. Go ahead

Q - Andrew Baker {BIO 3694545 <GO>}

Great. Hi, everyone. Thanks for taking my questions. So three for me, please. The first is on the financial assets in the U.S. You mentioned for the VA book likely needs to be hedged first. The OTC book sounds like you're the best owner in the near-term at least. What's your thinking around fixed annuity book and do you see potential active buyers for this type of business right now?

And then secondly, on the Netherlands, can you comment on the thinking behind having a core business that the majority of the capital generation falls into the financial asset bucket? Was there ever any thinking for the Netherlands not to be considered core? And then finally, on the remittance target, does this take into account the potential downside risk from the full dynamic hedging strategy at the GMIB/DB book? And if not, can you just give us a sense of sort of how material this hit to capital generation or remittances could be? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Andrew. Great questions. Will start off with your middle one which will ask to Lard. So can you elaborate on the position of the Dutch business please Lard?

A - Lard Friese {BIO 17008174 <GO>}

Yes, Andrew, thank you very much for your question. We have made choices and for the -- in which countries we want to focus and one of the core markets for us is the Netherlands. Within the Netherlands, we also made significant choices. We've made a significant choice to say that Aegon Life which will close for new business largely is going to be designated a financial asset and the other businesses which are let's say the mortgage origination platform, the contemporary pension business and the bank are going to be strategic assets. Now with respect to financial assets, I'd like to reiterate that we are going to own that and run that as a disciplined financial owner. It is a very large balance sheet with long liabilities and we seek to optimize and maximize the MPV of the cash flows that we can have emerged from that asset, which is a very attractive feature for remittance capability to the group over time.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Lard. The next two are for Duncan. Duncan, can you elaborate on our plans on the fixed annuity book as well as on the legacy VA book?

A - Duncan Russell {BIO 21983913 <GO>}

Thank you. Thanks again, Jan Willem. Hi, Andrew. On the fixed annuity book, we have classified as a financial asset and as Lard just said with all financial assets, we intend to be a discipline financial owner looking to maximize the net present value of the cash flows. So this will be no different to the rest of the financial assets in that respect. With respect to your question of does our remittance plan take into account hedging of the legacy book, just want to reiterate that we are going to take some time to understand the full implications of transitioning our GMIB/DB book on to a dynamic hedge basis. We already do that for GMWB book and the reason we're going to take some time, there are some choices we can make there. But part of the reason as Lard outlined that we're operating at the top end of our capital ambition in the short term is to allow us to take management actions such as this to add value to our shareholders. Back to you, Jan Willem.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. That brings us to our next question that's from Fulin Liang, which is from Morgan Stanley. Fulin, we can see you. Go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Thank you very much. I have three questions. So the first one is assuming if you could achieve all the target you've set out in 2023, what would be the ROE of the business in your core market? So that's the first one. And then secondly, how should we think about the shape of the free cash flow within this three years until 2023? Because if I think about it, you seem to be turned off the tabs from quite a few business lines in terms of the cash generation, because you are closing to new business. But then at the same time you -- the expense -- the 650 million extra cost will be front-end loaded. And then as Duncan said, you would expect some of the initiative to take time to materialize. So in that sense, if we combine these three together, actually should I expect it relatively back and loaded free cash flow in the three years? So that's my second question. Thirdly is because you identify China as the -- as one of the key growth market, but in China, I mean you have a JV partner obviously and also you're not, let's say a material player in China. Is there anything that you want to like say buyout or partner and then to invest more actually to grow in that market? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Fulin. Your ROE question, I'm going to part for the second Q&A session, if you allow me, because we want to focus on the strategy and transformation process. Shape of the free cash flows is linked to the strategic choices that we're making. So Duncan, can I can I ask you to take that question?

A - Duncan Russell {BIO 21983913 <GO>}

Yes. Thank you, Jan Willem. There is going to be quite a bit of detail this afternoon in Matt's -- this morning in Matt's presentation later on the detailed shape of the cash flows. But broadly speaking, we've indicated to you that we are planning to operate at the top end of our capital ambition. We've indicated to a detailed and thorough operating plan, which indicates to the intention to take management action and choices within the perimeter between the financial and strategic strategic assets, and the reason we're doing that is that we believe that at the end of this plan, Aegon will be in a much better place, lower risk, capital reallocated out of financial assets into strategic assets, and as a result of that, a much more resilient franchise. I think I'll stop there.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Lard, can you to elaborate on our position in China, please?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Fulin for your question. On China, we're -- China is a growth market and as you know and we have chosen China as one of the growth markets that we want to focus on for a number of reasons. The first one is we want to take care of today, but we also want to take care of tomorrow and this is a very promising growth market. We have joint ventures on the life insurance side and on the asset management side. Both joint ventures are doing very well. They are profitable, they're growing fast and they're capturing the opportunities that we clearly have in China. Now in the coming years, we want to work and closely work together with our joint venture partners there. We're very pleased in having those partnerships to continue our progress. We want to participate in the emerging pension market in China and one point you made is that indeed on my slide I said that potentially we want to also use inorganic options as options to grow further in our growth markets, but I want to make a very clear point there.

M&A is not a priority today. We are we are really fully focused at executing on the plan that we have outlined today and making sure that we improve the free cash flows of the company, reduce the risk profile of the company, make sure that the dividend starts to grow, and then we obtain our target of around EUR0.25 for over the year 2023, and that we've returned capital to stockholders. But if M&A in the future would come back to the table, we would always assess it against very strict financial and non-financial criteria and obviously, we will always assess it against our priority and base case, which is returning the capital that we would have in excess back to stockholders.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Before we go to the next question from Farquhar Murray, we just like to remind everyone that we're focusing on the strategy and transformation piece of this Capital Markets Day and we're eager to hear about the financial side, which both Matt and Allegra will cover in their presentation with a lot of great details. So with that comment, let's move on to Farquhar Murray from Autonomous. Farquhar, we can see you. Go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good morning, gentlemen and just three questions if I may. Firstly, a clarification on Albert's question a little bit. The statement that the proportion of capital generation should remain stable over the planning period. I just understand that that's presumably based on the runoff pattern plus the management actions you've built into the plan and does that carry through to a stable portion of the capital base over the same period? And then within the scenarios you think are probably realistic, how much do you think you could move from that stable pattern if you've manage to achieve some realistic disposal options around or acceleration options on your plan?

Then secondly, turning to the strategic asset side of the business, where do you exactly see the greatest opportunities for investments? Just wondering what the largest components of the investments you anticipate there? And on the inorganic component, obviously, not the priority, but given you had a very successful disposal of CE, does not give you leeway on the inorganic component from here? And then, finally, Duncan gave some excellent benchmarking commentary on the operational side of things. And when we look at the U.S. workplace pensions mark, can you just give us a bit more color on where you sit versus peers and what you actually think can make the difference to close the gaps there, particularly on the ancillary revenue side? Thanks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. We'll start with your second question on opportunities for strategic assets and whether you get extra space. Lard, I would like to give that one to you, please.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you very much, Farquhar and good to see you again. We've made choices into strategic assets in the U.S., the UK, and in the Netherlands. I would argued, if you look at the investment of the strategic assets, I see ample opportunity to work in the U.S. and in the UK, also in the Netherlands, but I would say from all three in the U.S., it's the largest market. And with the workplace solutions business and the individual solutions business line that we aim to focus on, we believe that there is ample opportunity to invest and to also expect greater growth and margin expansion. The same goes for the U.S. -- for the UK business where we should invest in the customer experience and the experience with the platform, and as a result, be able to expand our markets to ancillary products.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Duncan, can ask you to elaborate on the -- specifically on our position in the U.S. workplace market, please?

A - Duncan Russell {BIO 21983913 <GO>}

Sure. Hi, Farquhar. Dealing with your question with respect to retirement market, I think you're asking how we've benchmarked versus peers with respect to the plans I outlined today on ancillary products as an example. Our ambition and what I hope you take away from the presentation is that we intend to become more than a record keeper in the U.S. retirement market and drive our margin up as a result whilst benefiting from the structural growth in that market, which is the largest retirement market in the world. And I outlined a couple of examples of the ancillary products we were looking to push going forward or expand in going forward, for example, manager wise [ph] where our penetration is quite low today. It's roughly 5% of our customer base, utilizes manager advice and the share of proprietary assets in our firms, which is roughly 10% today, which is also low versus our peer group. And on both those things, we will be looking to significantly increase the penetration over the coming period and help therefore our margin.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Duncan. Could I also pass the next one to you on how our plans -- strategic plans for strategic assets and financial assets are expected to impact the cash flows that we get from both books?

A - Duncan Russell {BIO 21983913 <GO>}

Yes, and it's a difficult question, Farquhar, because -- and the reason for that is outlined to you that today, we are going to -- we plan to invest in the strategic assets and as you're aware in certain markets, as you invest and achieve growth, you do encounter some new business trend. So we would expect to see the earnings on the enforce book of the strategic assets increasing, but there would be greater new business trending and that was behind -- that was the rationale behind the answer I gave earlier that broadly speaking we expected to be pretty stable.

The other part -- the other difficult side of it is on financial assets. We will have in place dedicated teams and we do intend to be rational discipline financial owners of those businesses, looking to accelerate where possible cash flow and then also if possible increase our cash flows. So it could actually be the case and that's not -- if we're successful there, you could actually see higher cash flow from the financial assets in the short term depending on what management action we take and that's why it's quite difficult to give you a precise outlook as to the proportion between strategic and financial assets because to a degree, it depends on the success of our behavior. Hope that answers it.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Thank you, Farquhar. The next question is from Steven Haywood from HSBC. Steven, we can see you. Go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Good morning, everyone. And just focusing on a couple of business lines, the Dutch non-life business. Duncan, that was mentioned in the presentation, can you allocate it to strategic or financial in your definition? And then in the UK, I believe there's a remaining legacy annuity portfolio and is there anything else that is outside of the strategic asset definition? Then finally, from -- on the potential for SCR releases going forward, I think you mentioned 50 million to 100 million from the Dutch Life back book run off. But if you're closing a lot of capital intensive products in the U.S. and other areas, is there any potential additions to SCR releases going forward and therefore, improving your Solvency II capital generation over the long term as you shift towards a more capital like new business profile? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Steven, firstly on the UK question. Duncan, would you be so kind to transfer that one?

A - Duncan Russell {BIO 21983913 <GO>}

Sure. Hi, Steven and thanks for the question. On the UK, we've classified the UK as a strategic asset and as I think as a theme of the Capital Markets Day is that we've made choices. We've classified the UK as a strategic asset because we like the UK market. We think it's resilient. We think it's growing and Aegon has a scale position both in workplace and retail from which we can generate value for our shareholders, and we've also said that we need to invest in our propositions in order to maximize the value from that, and we're looking to improve efficiency. And we believe that the combination of investment in our propositions to drive growth, plus improved efficiency and benefiting from operational leverage as a result will allow us to achieve a valuation multiple on that UK business that we do see in the market almost irrespective of the underlying business model. That doesn't mean that we will not also be looking at ways to optimize our capital structure and our overall expense structure where appropriate. It just means that we make choices about where to prioritize given the scale of the change agenda we've outlined to you today. A recent example in the UK, for example, is we did disposal of the Stonebridge, which I think is an indication that even within a strategic assets where there is opportunity to add value through a backup management, we will take it.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. I can also ask you to answer the question about how our required capital in the US financial assets is expected to develop?

A - Duncan Russell {BIO 21983913 <GO>}

Yes. Okay. On the U.S., Steven, we've classified long-term care and the variable annuity businesses financial assets and as Lard outlined to you, we've also made significant choices with respect to new business, for example, exiting from interest rate sensitive traditional variable annuity business. As you point out in so doing that should mean that the level of new business strain in the financial assets is non-existent and as a result, we will get a natural runoff of those liabilities. They are long tail liabilities just as in the Dutch back book and we will look for ways to maximize the net present value of those cash flows.

On the other side, we are indicating to that we intend to invest in the strategic assets and we have significant ambitions there, and I outlined to you that we intend to become a top-five player in the U.S. Life market in the products we've chosen to participate in, and we also intend to be a top-five player in the U.S. mid-market retirement new sales. And that will obviously result in some new business trends. So therefore, what we do anticipate is an SCR release from the financial assets, but reinvestment into the growth assets and that's part of the reallocation of capital that underpins our equity story.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Which of you two would like to answer the question on the Dutch new life business?

A - Lard Friese {BIO 17008174 <GO>}

Yes. I can do that. On Dutch new life, we classified -- hi Steven. It's good to see you. We classified the non-life business as part of the strategic assets because it's a component of the overall contemporary pension, a defined contribution pension plan and salary employee benefit solutions. It's largely disability and accident book, which is in that space a natural ancillary products to sell to employees of companies.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Steven. The next question is from Nick Holmes from Societe General. Nick, we can see you now. Go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Just one question, please, which is can you take us through the rationale for keeping the U.S. business? I know it's a huge part of the group, but what are the synergies with Netherlands and the UK and why not divest it and redeploy the capital? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Lard, can you take that one, please?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Nick. Good morning and thank you for your question. We've made choices today, significant ones. We've chosen to focus on three core markets, three growth markets, and one global asset manager. We have developed a very granular operating plan where from which we derive our financial targets, but also from which we derive the conviction that we can execute. We've aligned the organizational rhythm. We've tightened governance and we've taken action already, and we believe that this plan is the best plan to create a very attractive shareholder value. I would like to point out one thing, we have -- this morning, I've said in my presentation that we're addressing under performance that was -- that Aegon has demonstrated over a number of years. We've done a lot of analysis on what caused that under performance. One thing did not cause the under performance and that is the fact that we have all these assets under one roof.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Ladies and gentlemen, this was our last question of the first Q&A session. We'll be back with a second Q&A session after all presenters have shared their presentations with you. We'll be sure that the financial questions from this session will be answered in the next one. We'll be away for a short break of about five minutes. So please be with us quickly again for the next presentation from Allegra. Thank you.

Welcome back everyone for the second part of our Capital Markets Day. We now continue with the presentation from our CRO, Allegra van Hovell Patrizi. I welcome her with great pleasure for a first appearance at Aegon Capital Markets Day. Allegra will discuss how we manage risk in Aegon and how this contributes to our investment proposition. Her presentation will be followed by the presentation from our CFO, Matt Rider and following that will be the second Q&A session.

Let me now hand over to Allegra.

A - Allegra van Hovell Patrizi

Thank you, Jan Willem. And hello, everyone. In my part of the presentation, I would like to discuss the risks that we face as a company, how we manage these successfully and additional actions we'll be taking further to improve our risk profile.

Our goals for this presentations are to convey to you that our remittance plans are underpinned by solid and resilient balance sheets, and that over time the sensitivity of this group to market movements will reduce in favor of commercial growth, effective all weather capital deployment and operational performance in strategic and growth businesses, as described by Lard and Duncan.

This is possible, thanks to our solid understanding of a balance sheet and the decisive plans we have developed, which address the key issues we discussed with investors like you over the last few years.

Let me now take you to slide 2 with my key messages for today. The first key message is that we have a mature risk approach. The Aegon risk function has a strong position and builds on a mature approach that we've developed over the years, presenting a good balance between independence, challenge and support of the business. Our strategy is developed to support the overall business strategy and to adapt to the specific market circumstances we face.

The strong position of the risk function allows us to stay close to and actively manage our key risks, those risks that you care about as an investor. And we act where needed. We will discuss a lot of that today.

To reduce our dependency on interest rates and improve our risk profile, we're announcing today that we will significantly reduce our interest rate risk in the U.S. Next to that, we're taking actions to reduce the volatility of the Solvency II ratio of our Dutch Life block.

Furthermore, I will show that the risks in our U.S. variable annuity businesses are well contained by effective dynamic hedging for the risks we currently target. We're assessing options to further expand our dynamic hedging program to a legacy variable annuity book. And finally, we proactively manage all our risks.

On credit risk, for example, I will discuss strong competencies that have led us to perform some key choices, and allowed us to capture attractive risk-adjusted returns. Similarly, for both the U.S. and the Dutch Life business, I will touch upon main underwriting risks and explain how we manage those tightly and stand ready to capture opportunities for optimizing our positions when they present themselves.

Before diving into these topics, let me first please set the scene. So as you can see on slide 3, our U.S. and Dutch Life businesses represent about 70% of our risks when measured on a Solvency II basis. For this reason, in today's presentation, I only focus on these two units.

A key tool to manage our global risks is our internal economic framework. It has been in place for many years, and provide us with a common measure of value that we apply across Aegon. It was also a cornerstone of our Solvency II models.

In the U.S., the economic framework and the RBC framework offer vastly different yet complementary perspectives, as the two bar charts on the right show. Both frameworks are important for our risk management. The former, the economic framework, drives economic value and allows like-for-like comparison between our business units; while the latter, the RBC drives capitalization levels and remittances.

Economic framework tends to react sharply to market movements like share prices tend to do, but does not reflect well the fundamental strength that having long and relatively liquid liabilities provides. The RBC framework is not fully market consistent and has mean reversion elements baked in, so as to better reflect the long-term nature of the liabilities. As a result, the composition of risk defers.

For instance, interest rate risk is much bigger relatively under economic framework. This is because the economic framework assumes that interest rates remain essentially at -- to this level forever, whereas the RBC framework doesn't. In the Netherlands, such a difference doesn't exist, as statutory Solvency II framework is an economic model.

What this slide also shows is that in the Dutch Life business, we're mostly exposed to the risk of people living longer longevity risk. In the U.S., it is the opposite, driven by the mortality risk in the life book. This is one is one of the examples of how we benefit from diversification in the group, even though the group Solvency II ratio does not reflect this because of regulations.

I will take you far through the five U.S. key topics: interest rate risk; VA and related market risk, VA being variable annuities; credit risk; and in particular exposure to BBBs and commercial mortgage loans also called CML; long-term care; and finally mortality risk.

Then we will explore in further detail the three NL related topics: credit spread basis risk; the credit risky mortgages; and longevity risk.

Slide 4 describes Aegon's risk strategy. We choose which risk to accept or retain based on a simple decision tree, and that supporting our business strategy and taking into account specific macroeconomic and idiosyncratic circumstances.

This management team has stated its intention to reduce its risk profile linked to financial assets in favor of strategic assets, which are less capital-intensive and financially geared by nature. Hence, the appetite for or and exposure to financial risk has to come down. As a consequence, we're taking a number of concrete actions that I'll explain shortly.

But before I do so, let me briefly explain our risk function and a strong position within Aegon. I am now on slide 5. Our philosophy is that actual risks are -- provides oversight, challenges the decision making and offers tools and frameworks who are very involved but remain independent.

The maturity of the risk function also shows in the fact that through the years we have gained a strong seat at the table. For instance, I as a CRO, attend all executive board meetings. Also I have CROs reporting to me in each of the business units. This allows to have a direct and close pulse on the business and on the risks.

Let me now move to slide 6 to provide an overview of the U.S. risks themes in focus today. The graph shows the impact of the U.S. RBC ratio of certain extreme events, such as market movements or changes to underwriting parameters. And the message you should take away is that our U.S. balance sheet is resilient, which is good news for the remittance plan that Matt will set out in detail later.

As you can see, even in very stressful events, we expect to remain around the 385% RBC mark at a minimum. This resilience is the result of the ongoing work done to position well our balance sheet and of the actions we are taking to reduce our exposure to certain risks. I will touch upon these in the coming pages. By taking actions and tightly managing the key risks in our businesses, we're protecting the dividend paying capacity of the U.S.

Slide 7 explains that under the RBC framework, an immediate shock to interest rate only has a limited upfront impact on the capital ratio, and the impact will take a long time to make its way through in the RBC ratio. Our sensitivity to a downward shock of 50 basis points leads to reduction in the RBC of only 5 percentage points. If, however, these slow rates were to persist the RBC ratio would trend lower, driven by lower capital generation. The lower capital generation is primarily driven by lower reinvestment yields.

So as the graph shows, we'll invest around USD4 billion each year, and the projected reinvestment yield is lower than the yield of the assets that mature, and therefore, has a negative impact. Because of this, the portfolio yield will also slowly come down if the low rate environment persists.

However, the impact on capital generation is less profound than you perhaps might have expected. And the reason is that relatively low yielding asset will mature in the coming years.

In summary, RBC is quite insensitive to interest rates shock in the short term, low interest rates gradually erode capital generation over time, but the overall impact is manageable and will not jeopardize U.S. remittances in the next few years.

This leads me to slide 8. Because of this relative RBC insensitivity to interest rates, we complement the RBC view with the market consisted view of interest rates to manage this risk. And this slide shows the decisive actions we will undertake to enhance our risk profile.

We have done an extensive review of the options to reduce our economic exposure within the relevant constraints, including impact on our RBC, capital generation, liquidity needs, and assets available to reinvest it.

This has resulted in a balanced set of actions to materially reduce our linear interest rate exposure over the coming two years. We will take three main actions, some of which could be in the shorter term.

Firstly, for the general account, we will move into longer-dated bonds, both by actively selling short-dated bonds and by making the investments in longer duration assets. Secondly, we'll extend our successful forward-starting swap program. Thirdly, we have taken asset liability management actions on the legacy variable annuities block. And we have lengthened the duration of assets purchased from the proceeds of the existing hedge program. These actions together would reduce our linear interest rate risk by 1/3 to 1/2 based on markets to the end of June.

We expect no initial impact from these actions on our RBC ratio and capital generation. The benefit from these actions is that our cash flow testing buffers become more resilient in adverse interest rate scenarios, safeguarding the RBC ratio and remittances. Interest rate risk would further reduce in case we decided to dynamically hedge the legacy block of variable annuities.

So let's look at hedging of variable annuities in more detail on the next slide, slide 9. Aegon's variable annuities can be categorized in two main blocks with very different characteristics and hedging approaches. The older block consists of guaranteed income and death benefits. Also, called GMIBs and GMDBs.

We stopped selling the riskier GMIB products in 2003, well before the rest of the industry. We have continued to sell products with death benefits, DBs, thereafter, but pre-2004 vintages are considered part of the legacy block together with the block of business acquired from Merrill Lynch in 2007.

These blocks of businesses benefit from a macro hedge to protect against equity risk. And as mentioned, we are assessing the potential for a full dynamic hedge on the legacy block, including interest rate risk. This would further reduce our risk exposure and further protect our capital position against shocks. In doing so, we will be mindful of potential capital and financial impacts.

We aim to give you an update here on within the next 12 months. This is also an important condition that needs to be fulfilled before we can consider offloading variable annuity risk to a third party.

The more recent block is our GMWB block, our guaranteed minimum withdrawal benefits block. This block is fully dynamically hedged for multiple risks, including interest rate risk, equity risk at point-of-sale, drastically reducing the residual risk. As the graph on the right demonstrates, this hedging is highly effective as the P&L volatility from this risk is virtually removed.

Let me now turn to the next U.S. topic, credit risk. Slide 10 shows the composition of a public corporate bond portfolio in the U.S. and highlights that our position is defensive. Within the BBB space, we're underweight BBB minus by 3 percentage points and we're equally overweight on the BBB-rated bonds versus the industry benchmark.

When looking at the sectoral exposure of the BBB portfolio, we're positioned conservatively towards the impact of the COVID-19 pandemic. And we screen positively on the sectors energy and consumer cyclicals. For the latter, we have no exposure to leisure and very limited exposure to lodging.

On transportation, we're slightly overweight compared to the benchmark but have very little exposure to airlines. In managing the portfolio, we leverage our vast knowledge of credit risk management, which for example takes into account analysis on a name by name basis of cash flow generation that levels maturity schedules, liquidity and consideration of future credit profile. This helps us in taking the right decision at the right time and maintain a defensive stance on corporate bonds.

If you move to slide 11, our U.S. general account is the main source of credit risk for our company. This slide shows the actual historical impairments in the U.S., and shows that we are compensated well for bearing this risk. The average impairment through the cycle is 26 basis points, whereas the average credit spread earned to new money amounted to 177 basis points on average since 2017. This illustrates that we have been rewarded for taking on credit risk, also when taking into account the spike in impairments during the dot-com crisis in the early 2000 and the great financial crisis.

If the peak defaults, as witnessed in 2009, were to reoccur, this would reduce the U.S. RBC ratio by 36 percentage points, which for end of September would still be well above the dividend-paying level.

For rating migrations, the worst observed migrations of this century took place after the dot-com crisis, taking the cumulative downgrades from BBB to high yield during the 2001 to 2003 leads to around 25% of downgrades from BBB. Reoccurrence of such a scenario would also be manageable given today strong capital position.

Obviously, the current crisis is still playing out and nobody knows what the credit environment will actually look like in the near future. But we're well positioned and we manage this risk closely and proactively.

Let me now move to slide 12 to discuss our U.S. commercial mortgage loans or CML portfolio, which is top of mind for many investors due to its liquid nature We have significantly de-risked our CML portfolio since 2008, while maintaining attractive return characteristics. We have moved much more into multifamily apartments. Within this space, we target high-quality location and non-subsidized rates. For the other property types, we are also positioned defensively.

Next to that, you can see that the loan-to-value ratios of the portfolio are solid, in particular for the sectors that are perceived as riskier. The underlying properties are valued at least once a year. And furthermore, we benchmark market movements of sub-sectors versus our portfolio every quarter to stay on top of the most recent developments.

Our latest benchmarking shows that 2/3 of our portfolio had no to limited impact from the COVID pandemic, underscoring the conservative nature of the book.

Other risk indicators such as occupancy rate and the number of forbearance requests, also screen positively. Again, it is too early to see the ultimate consequences of the pandemic on the CML market, but we believe our portfolio is well positioned and defensively going into it.

Let me now turn to the underwriting risks in the U.S., starting with our long-term care business or LTC. I am now on slide 13. The graph on the left shows that over the last four years, our LTC experience under IFRS has tracked well against management's best estimate. We view the IFRS results as the leading indicator of the health of our book as they reflect the best estimate assumptions based on our emerging experience.

We annually review our LTC assumptions and track our experience on a monthly basis, including having regular discussions with our LTC operations team on claims results. I'd like to point out that with 50,000 claims being paid up to date and over 13,000 of policies currently on claim, we have sufficient and credible data to set well informed and granular assumptions.

The right hand shows the sensitivities of the premium deficiency reserve, the PDR reserve as we call it. The PDR reserve also uses best estimate assumptions, the same as IFRS to test the result sufficiency.

Driven by assumption updates in the first half of the year, we expect to have remaining PDR sufficiency for year-end 2020 to be around zero. We have a track record of actively managing the LTC book and will continue to do so with the aim of maintaining PDR sufficiency. We will update you at a quarterly results on how the PDR is developing.

The next slide, slide 14 discusses the benefit utilization assumptions, which is one of the key assumptions in more detail. Benefit utilization is the proportion of available benefits that claimants use. Although we are exposed to benefit utilization going up as the previous slide show, the actual benefit utilization rate has been trending downward for the last 10 years, which is a positive. This is attributed to the actual inflation for cost of care remaining below the maximum daily benefit payable under the policy terms when inflation protection is built in. Furthermore, the downward trend is better than expected.

The right hand of the graph shows inflation percentages for external facility, nursing homes and assisted living facilities, and for home healthcare specifically. For reference, we also show the core consumer price inflation. Overall, inflation for cost of care has been relatively stable and following the same trend as overall inflation for the past 10 years, although at a slightly different level.

More importantly, current inflation by site of care is overall in line with Aegon's best estimate assumptions. So all in all, these two slides show you that we are actively managing the book to maintain PDR sufficiency and avoid any RBC ratio impact, and that the LTC book is evolving nicely, in line with our assumption.

Let's now turn to mortality risk in the U.S. Life book. I'm now on slide 15. This is a risk that we actively manage, and when possible, we seize opportunities to further reduce it.

In the first half of 2020, we updated our mortality assumptions. The average claims experienced in the period 2017 to 2019 is below what we would have expected based on new assumption. If we would apply these assumptions retrospectively, our actual to expected claims ratio would reduce by around 2% compared to our previous assumptions to below 100%.

Furthermore, we have taken management actions to manage our Life book on several occasions. We had, for example, sold our BOLI/COLI business in 2017 and also have increased monthly deduction rates for different blocks of Universal Life business to reflect worse than expected mortality experience.

Finally, we have reinsurance on around 20% of the block. We are always on the lookout for opportunities to reinsure, but only if the financials are attractive. When mortality rates increase, we're particularly impacted through older ages in large case.

We saw both in the first half results, showing an adverse impact of mortality. The extra mortality witnessed in the first half results was also partly attributed to COVID-19. For ages over 85, this is more an acceleration of claims than anything else.

We currently estimate that an additional number of 100,000 deaths in the U.S. population would lead to around USD75 million adverse mortality results for Transamerica on a pre-tax basis. This implies that adverse mortality due to COVID-19 is more an earnings event rather than a capital event.

Our estimate takes into account the relatively lower number of this in the insured population versus the overall U.S. population and the age distribution of the Transamerica portfolio.

Please note that we do not make a statement on how many additional COVID-19 deaths we expect as that is currently too hard to credibly predict in our view.

Let me now take you to the next slide, slide 16 on U.S. mortality, focusing on new business. Via the new business, we're gradually reshaping our Life business to be more robust as we have changed the product mix of our new business, there is less need for reinsurance.

As Duncan highlighted, within Life, we focus on Indexed UL, Term Life, and Final Expense Whole Life, while we have good positions to build upon and which is where already much of a new business sits today as the graph illustrates.

As examples here of, we stopped selling universal life policies with secondary guarantees five years ago, and reduced our focus on the high net worth market. From a risk perspective, we're comfortable with the composition of new business sold. Due to the lower risk profile, we reinsure only around 5% of new business using excess of loss reinsurance. This removes the risk of a material distortion from an individual claim, while will retain most of the risks and hence the financial returns.

This concludes the U.S. risks I wanted to talk you through. I hope you'll have taken away that we're taking clear actions to lower the risk profile with regard to U.S. interest rates. We have a very successful hedging program in our VA book that we're assessing to expand further.

We have a defensive position in U.S. credit risk and are managing the risks tightly. We actively and successfully manage the underwriting risk in the LTC and life portfolios. All of the above helps in improving and maintaining a consistent and attractive remittance pattern from the U.S.

Let's now switch focus and move on to the Dutch Life business. I am now on slide 17. The Dutch Life business is one of the financial assets from which we want a reliable remittance pattern. This requires a resilient balance sheet. And as you can see on this slide, we're now able to show a resilient balance sheet, thanks to all the actions undertaken recently.

The graph shows the key sensitivities of the Solvency II ratio and demonstrates its robustness. This is thanks to the positioning of our balance sheet today, as well as the successful actions we have undertaken to lower credit spread basis risk going forward.

First and foremost, NL Life has identified improvements to its internal model that mitigate the volatility caused by the basis risk between the EIOPA VA reference portfolio and its own asset portfolio. We expect these improvements to be implemented for yearend reporting, and that they will be in place until changes arising from the Solvency II review are enacted. This change is expected to reduce the impact of different credit spread shocks on the Solvency II ratio of Dutch life business, as shown in the pro-forma numbers in the graph.

Furthermore, we have rebalanced our investment portfolio to bring it a bit more in line with the EIOPA volatility adjustment or EIOPA VA reference portfolio by investing part of our cash into corporate credit. We will continue to do so if market circumstances allow. A more stable ratio in combination with a prudent and granular approach towards longevity risks, underpins a reliable dividend from our Dutch Life business.

You might ask, why we're not reducing our exposure to mortgage? Well, on the next two slides, I will explain you why these are good asset class for us.

On slide 18, you can see we manage a substantial portfolio of residential mortgages in the Netherlands. The total size for the end of June 2020 was EUR53 billion. EUR29 billion of this is on the balance sheet of Aegon the Netherlands and its subsidiaries.

These mortgages offer very attractive returns, especially given the low risk. The returns have attracted interests from domestic and foreign players. Therefore, we have leveraged our expertise in this field to originate mortgages for third parties and have created a fee business. It has grown over the past few years and now represents 45% of the total, and in 2019, it generated fee revenues of EUR64 million.

For those of you less familiar with this asset class, unlike in some other countries, in the Netherlands, a mortgage issuer has full and lasting recourse ability to the borrower's assets and liabilities.

Another attractive risk mitigating feature is a government-backed guarantee. Over 40% of our Dutch mortgage portfolio has this guarantee in place, limiting our exposure to defaults.

Slide 19 shows you the resilience of the Dutch mortgages as an asset class. In the downturn that followed just after the great financial crisis peak defaults of our Dutch mortgage portfolio, arose in 2015 at just 7 basis points. This is despite unemployment doubling and the average house prices plummeting in the Netherlands.

Next to a strict on the underwriting process, there are several external drivers for this performance. This includes the strong social security system in the Netherlands, as well as the full and lasting recourse to the borrowers' liabilities.

Because of this, the main driver of mortgage default in the Netherlands is in fact homeowners deciding to separate. So I hope these slides demonstrate to you the clear attractiveness of the Dutch mortgage portfolio from both the risk and return perspective.

Let me now please move to the last slide on the Dutch Life discussing longevity risk. We're mainly exposed to longevity risk in the Dutch Life business due to the sizable pension back book.

This chart aims to show you that we monitor and manage this risk very closely, and that the evolution is favorable. The methodology for establishing a best estimate liability is based on population mortality tables that we adapt to take into account our own experience. For the latter, we incorporate the type of employer, and since the third quarter of this year, the level of education as well. This level of granularity allows us to better predict life expectancies and hence better assess the risk.

Population mortality, we consider the trends at most the Dutch and wider European levels. We're planning to improve how we allow for this by aligning our internal view more closely with the updated approach of the Dutch Actuarial Society. This allows us to better reflect the current divergence between the Dutch and European mortality.

In December of last year, we announced a major reinsurance transaction with Canada Life, fully ensuring the longevity risk on around 25% or EUR12 billion of the pension book at an attractive price. This allowed us to rebalance our risk profile.

From a risk perspective, we're comfortable with the relative exposure to Dutch longevity risk. And therefore, financial considerations are mainly driving decision on further reinsurance.

Let me now turn to the final slide of today, reminding you of how it all comes together. Today, I have shown you that Aegon's risk function is mature and strongly built while remaining independent.

We're taking concrete actions to reduce the interest rate risk in our U.S. and to lower the ratio volatility in the Dutch Life businesses. Both increase the resilience of a capital position through time and hence further safeguard remittance. Furthermore, we're reviewing the potential of increasing the hedging of the legacy variable annuities block by moving to a full dynamic hedge for both interest rates and equities. All other risks, we're constantly monitoring relative -- relevant developments and taking actions proactively where and when appropriate.

I hope you walk away from my presentation with a sense of how we're going to protect the value that the strategic and operational transformations are going to create. This is a prerequisite for our ability to maintain a strong balance sheet and from that to deliver attractive and sustainable returns for shareholders.

Let me now please give the virtual microphone to Jan Willem, and I hope to hear you later during our Q&A session.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Allegra. We now continue with the presentation from our CFO, Matt Rider. Matt will walk you through Aegon's financial roadmap for the coming years. Matt's presentation will be followed by the second Q&A session with all presenters.

Let me now hand over to Matt.

A - Matt Rider {BIO 20002664 <GO>}

Thank you, Jan Willem. And hello, everyone. I would also like to thank all of you for tuning into our Capital Markets Day today.

In my presentation, I will focus on our capital management philosophy and the actions we are taking to strengthen our capital position. In addition, I will elaborate on the financial implications of our strategy and how this translates into new financial targets which underscore the opportunity for value creation at Aegon.

Let's now move to the first slide. Maintaining an adequate level of capital in our units and cash capital at the holding is the foundation of our capital management policy. We want to be able to absorb moderate shocks, including any future potential fallout from COVID-19 without negatively impacting the remittances from our businesses to the group and capital distributions to our shareholders.

We have taken several actions to strengthen our capital position and reduce the volatility of our solvency ratios. We are considering taking further actions along these lines by potentially further hedging our legacy variable annuity block, which will allow us to more actively consider a broad range of options for this block of business.

A strong and resilient balance sheet is the foundation of our ambition to deliver attractive and sustainable returns to our shareholders. We have set our targets in line with this thinking. We aim to reduce our gross financial leverage to between EUR5 billion and EUR5.5 billion by 2023. And we're implementing a EUR400 million expense savings program.

Some of these savings will be reinvested in growth initiatives. The combination should lead to growing free cash flows of EUR1.4 billion to EUR1.6 billion cumulatively over the plan period. As we meet our deleveraging and free cash flow growth targets, we see room to increase our dividend to around EUR0.25 per share over 2023.

Throughout our strategic transformation, we will provide disclosure that allows you to track the progress that we are making. We have updated our capital management policy and will also be updating our reporting to make it more relevant for all stakeholders.

Let's now turn to slide 3, where I will elaborate more on our capital management philosophy. Our capital management philosophy consists of three elements. First, we will manage capital in our operating units to their respective operating levels and above their minimum dividend payment levels. The operating level is sufficient to absorb moderate shocks without impacting remittances to the group.

Second, we will manage the cash capital at holding within an operating range of between EUR0.5 billion and EUR1.5 billion to cover holding expenses, near term dividends and contingencies.

Third, we intend to reduce our gross financial leverage to a level of EUR5 billion to EUR5.5 billion. The target range is based on an assessment of a combination of traditional IFRS and other leverage metrics, including the amount of capital generation available to service debt. By deleveraging, we will strengthen our balance sheet, reduce our risk profile and make Aegon more resilient.

Slide 4 shows our updated capital management policy, which is applied across all of our units. Capital deployment is driven by a strong cash capital position at the holding, supported by reliable remittances from our units. This means that our capital management is focused on maintaining strong local capital positions and sufficient cash at the holding.

For capital management purposes, each country unit has a minimum dividend payment level and then operating level. Country units are expected to remit capital to the group as long as their capital ratio is above the minimum dividend payment level, subject to normal governance. We will manage each unit to the operating level over the cycle and changes in required capital are reflected in normalized capital generation based on this level.

We have a predefined list of management actions in place to ensure that units will remain well capitalized. When units approach the minimum dividend payment level, management actions will be used to improve the capital ratio. In addition, we hold a buffer within cash capital at holding that can be used for contingencies and to recapitalize units if needed. Below the minimum dividend payment level, the focus will be on strengthening the solvency ratio to protect the interests of so policyholders and shareholders alike.

Having said that, we will manage the capital levels of our units to the country units operating level over the cycle. By doing so, we will be able to absorb moderate shocks without impacting the remittances to the group.

Let me now turn to the next slide and show you how this works in practice. As you can see on slide 5, all main country units are currently around or above their operating levels at the end of the third quarter of 2020. Let me note here that going forward, we will be reporting the capital ratio of Aegon Leven, which we will refer to as NL Life instead of the ratio of Aegon the Netherlands.

Similarly, we'll be reporting the capital ratio of Scottish Equitable rather than that of Aegon, UK. This ties with our reporting under Solvency II and is a better reflection of how we manage the business as capital is managed on a legal entity basis.

Our main units represents a significant buffer of EUR1 billion. The group's Solvency II ratio is a useful indicator of our overall financial strength, even though it is not the key driver of capital deployment. At the end of the third quarter, the group Solvency II ratio stood at 193% and reflects the solid capitalization of our units. Next, I will talk you through the U.S. capital position in more detail as well as the actions we are taking to improve the quality of that capital.

I'm now on slide 6. As mentioned that our first half 2020 results affiliate notes between the U.S. life companies and the U.S. intermediate holding company are used as part of our normal practice to manage timing differences between dividend payments from the life companies and remittances to the group.

Given the impact of COVID-19 on our U.S. life business and the uncertain outlook for the U.S. credit market, we decided to have the U.S. retained its planned second half 2020 remittance to the group. By doing this, we prioritize strengthening the U.S. balance sheet and accelerated the reduction of the affiliate note balance.

As a result, the regular dividends from the U.S. life companies to the U.S. holding in the second half of this year are being used to reduce the balance of affiliate notes.

In addition, the majority of the $390 million capital benefit from the sale of the Transamerica Pyramid will be used for the same purpose during the fourth quarter of this year. These actions will bring the balance of affiliate notes to approximately $100 million, significantly improving the quality of the U.S. RBC ratio.

In the coming months, we will be reviewing the possibility of increasing the hedging on our legacy block of variable annuities with guaranteed minimum income and debt benefits. If executed, this could have an impact on our capital position. Therefore, we aim to maintain our U.S. RBC ratio above its operating level of 400% RBC until the implications of these potential actions as well as further impact stemming from COVID-19 become more clear.

On slide 7, I will discuss the steps we are taking to reduce the volatility of the capital ratio of our Dutch Life business. In the third quarter of 2020, the Solvency II ratio of NL Life amounted to 170%, well above its operating level of 150%. A solid capital position puts Dutch Life business in a position to pay consistent remittances to the group, which will now be made on a quarterly basis.

In the fourth quarter of 2020, the Dutch Life business paid EUR25 million to the group, and there is potential to grow this over time. As usual, we have reviewed the assumptions for our European units in the second half of this year. Similar to the U.S. assumption review process completed earlier this year, we have gone through a thorough review of all assumptions. The Dutch Life business, we expect this to review to have a neutral to positive impact on the Solvency II ratio. This includes the favorable impact arising from aligning our longevity assumptions more with the new Dutch industry approach on population mortality that Allegra just talked about.

In the past several years, the capital ratio of NL Life has been more volatile than we have wanted it to be. We have taken two actions to reduce the volatility of its Solvency II ratio. First, NL Life has identified improvements to its internal model that mitigate volatility caused by the basis risk between the EIOPA VA and our own asset portfolio. We expect these improvements to be implemented for yearend reporting, and that they will be in place until changes arising from Solvency II review are enacted. This change is expected to reduce the volatility of the capital ratio as shown on the graph on the right hand side of the slide.

Second, we have reinvested part of our cash into corporate credit and will continue to do so if market circumstances allow for it. While there is some initial capital strain associated with doing this, going forward, this will lead to less volatility of the Solvency II ratio as we move more toward the EIOPA reference portfolio, thereby reducing the basis risk associated with the volatility adjustment.

Having said this, we can expect that there will continue to be a mismatch between our asset portfolio and the reference portfolio given that we still intend to maintain an overweight position in Dutch residential mortgages. We continue to view this as a very attractive asset class, given the yield relative to the level of required capital and the long history of very limited defaults. In combination, these actions are expected to lead to a more stable capital base in the Netherlands and more predictability for shareholders.

Let's now move to the cash capital at the holding. You will see on slide 8 that we have updated the cash capital at holding operating range to be between EUR0.5 billion and

EUR1.5 billion. This range covers expenses related to debt servicing, operating expenses and near-term dividends to shareholders.

The operating range also covers contingent capital needs such as the risk that we would need to recapitalize subsidiaries. This is based on a forward-looking view of the capital ratios of our units. By the end of the year, we expect our cash capital at the holding to be EUR1.1 billion, and therefore in the middle of the operating range. In the near term, we would expect to manage to the top half of the operating range, considering the current risks in the macro environment, the ongoing restructuring of our business, and our target to reduce leverage.

That being said, over time, we could become comfortable to manage to a lower level within that operating range if unit capital ratios increase and/or the risk profiles of our main businesses improve.

Let me now move to slide 9, where I will discuss our plan to further strengthen the balance sheet by deleveraging. By 2023, we intend to reduce our gross financial leverage to be between EUR5 billion and EUR5.5 billion. Our previously announced intention to not refinance $500 million in senior debt, which matures on the 15 of December is the first step toward this goal.

The deleveraging needed to reach the target will be partly funded by the EUR830 million in proceeds from the recent sale of our Central and Eastern European operations, which is expected to close in the second half of next year.

The target range is based on an assessment of a combination of traditional IFRS and other leverage metrics, including the amount of capital generation available to service debt. A lower level of debt in combination with increasing normalized capital generation and free cash flows will make Aegon a more resilient and stronger company in the future.

On the next slide, I will elaborate on how we will get reach the leverage target range. We expect to reduce debt by EUR200 million in 2021. The remainder of the deleveraging will be more back-end loaded as we prefer to operate at an elevated level of cash capital at the holding in the near term. Our deleveraging program will take into account the call and redemption schedules of outstanding instruments as well as market opportunities.

As you can see on the slide, we have some flexibility in deciding when we will do leverage. Part of our debt securities are callable on a quarterly basis. Additionally, we are under no pressure to deleverage as we have only one bond with a legal maturity date before the end of 2025.

Let's now move to the next slide, where I will talk about capital generation and remittances. The graph on slide 11 shows that we expect normalized capital generation as well as gross remittances to increase over the plan period. I want to stress that the numbers shown on the slide assume no significant management actions with respect to financial assets. Normalized capital generation will benefit from expense savings and growth initiatives. However, the benefit from expense savings in normalized capital generation will be lower than in IFRS earnings, as our best estimate liabilities are based on the assumption that expenses are variable to some extent. The benefit from performance improvement initiatives will more than offset headwinds such as the adverse impacts from low interest rates that Allegra just talked about.

Remittances from our units in 2021 are expected to remain below normalized capital generation as shown by the remittance ratio on the slide. This is mainly driven by assumed elevated credit migration and impairments in the U.S., which are not fully reflected in normalized capital generation. For 2023, we have applied some prudency in remittances given the potential macroeconomic fallout from COVID-19. In the medium term, remittances and normalized capital generation should converge absent market dislocations and one-time items. Please note that we have made a change to our definition of normalized capital generation.

Going forward, the negative impact from the UFR decrease of 15 basis points per year will be reflected in normalized capital generation. As from 2024 onwards, the UFR will be lowered less frequently, resulting in more capital generation and allowing for higher remittances.

Slide 12 shows how these remittances translate into free cash flows. In the first two years, we anticipate stable remittances from our units followed by a sharp increase toward the end of our plan period. In 2023, we expect gross remittances of up to EUR1 billion. In the holding, expense savings and deleveraging are expected to lead to a decrease of about EUR50 million and holding expenses in 2023 compared with 2020.

With the increase in remittances and the decrease in holding, funding and operating expenses, free cash flows are expected to significantly increase over time. Over the period 2021 to 2023, free cash flows are expected to amount to a cumulative EUR1.4 billion to EUR1.6 billion, highlighting the cash generating capacity of the group.

The cumulative free cash flows combined with the EUR830 million in proceeds from the sale of our operations in Central and Eastern Europe, provide us with EUR2.2 billion to EUR2.4 billion of cash over the coming three year period.

On Slide 13, you will see what this increase in free cash flows means for our dividends to shareholders. Our policy going forward is to distribute free cash flows to shareholders unless we see value creating opportunities to invest in. These investments will be subject to strict criteria, both financial and non-financial. Dividends are expected to grow in line with free cash flows. Should there be surplus cash flow above and beyond that, we would expect to return it to shareholders, most likely via share buybacks.

As you are well aware, we rebased our Aegon 2020 dividend to EUR0.06 per share. Over the next two years, we anticipate limited dividend growth as we prioritize deleveraging and expect to undertake management actions to derisk and improve the performance of the company.

Following our plan to grow free cash flows over time and once we have achieved our deleveraging target, we would expect to pay a dividend in line with growth in free cash flow. We expect this to result in a dividend of around EUR0.25 per share over 2023.

I would now like to talk to you about our expense savings program and what that will mean for our underlying results on slide 14. We intend to reduce our addressable operating expenses significantly over the period 2021 to 2023. Addressable expenses are those expenses that run through underlying earnings excluding deferred acquisition expenses. We will report these consistently going forward.

The granular plan that Lard and Duncan referred to underpins our EUR400 million expense savings target. A large part of the savings will already be visible in 2021 as we expect to achieve 50% of our goal by the end of next year. All units will significantly contribute to the expense savings target.

Given the fact that most of Aegon the Netherlands business is managed as a financial asset, it is expected to be the biggest contributor to expense savings. By reducing expenses by EUR400 million, we will not only increase our profitability, but we will also create room to invest in growth opportunities. Investments in growth are expected to lead to an uplift in underlying earnings. Most investments in growth will be made in our U.S. business and Dutch service businesses. We expect to incur one-time charges of around EUR650 million in aggregate over the period 2021 to 2023.

Please note that this includes charges from previously announced programs such as those related to our administration partnerships with TCS in the U.S. and Atos in the UK.

Let me show you on the next slide how we expect our performance improvement plan to impact our underlying results over the plan period.

Please note that all numbers on slide 15 are adjusted for our divested operations in CEE, and include running costs of our U.S. macro hedge of approximately $200 million per year. Expense savings together with initiatives to grow our business are expected to contribute EUR550 million to underlying earnings before tax in 2023 compared with 2019.

The performance improvement initiatives are expected to offset lower investment income, driven by the drag from lower interest rates and outflows in our variable annuity business in the U.S. This follows our decisions to stop selling traditional variable annuities with significant guarantees.

On balance, we expect that the performance improvement initiatives together with the implementation of the interest rate risk management plan and our decision to stop selling variable annuities with significant guarantees will reduce our risk profile and improve the quality of our earnings over time.

I now continue on slide 16, where I will talk about financial assets. Financial assets consist of the Dutch Life business and U.S. Variable Annuities, Long-term Care and Fixed

Annuities. These financial asset books of business account for over 40% of the group's own funds. The Dutch Life book is clearly the biggest contributor, but also the U.S. Variable Annuities and Long-term Care books have significant capital tied up in them.

Going forward, we will provide additional disclosures on financial assets, intended to transparently show our progress on managing these books of business to maximize their value. As pointed out by Lard and Duncan earlier, it is our objective to release capital from these blocks and reallocate it to our strategic assets or redeploy it elsewhere.

I would now like to discuss other updates to our disclosures on slide 17. We are making these changes to make our disclosure more relevant for all of our external stakeholders. The changes are in three areas.

Firstly, we are changing the way that we report the U.S. macro hedge. Currently, our macro hedge costs are disclosed below the line within fair value items. Going forward, we will be presenting the running cost of the macro hedge as part of variable annuity underlying earnings. This currently amounts to approximately $200 million per year. The change should better reflect the performance of the business, and thus makes underlying earnings more meaningful for our stakeholders. The impact on earnings from financial market movements on the derivatives and variable annuity liabilities will continue to be reported as part of fair value items.

Secondly, the quarterly impact of DAC unlocking in our U.S. Life business as a result of market movements and portfolio changes will no longer be part of underlying earnings and will move to fair value items. This change will lead to less volatility in the underlying earnings of the U.S., and give more insight into the recurring earnings capacity of the business.

Finally, there will be two changes in respect of Solvency II disclosures. As previously mentioned, the impact on capital generation from the decrease in the ultimate forward rate by 15 basis points per year will be reflected in normalized capital generation. As a result, normalized capital generation will be a better indication of the remittance capacity of the Dutch Life business.

In addition, the group external dividend will henceforth be deducted from Solvency II Own Funds in the period to which the dividend relates rather than the period in which the decision to pay the dividend is taken. We do this to a line with European practice. All changes will be visible in our disclosures as of the first quarter of 2021.

That brings me to slide 18. Lard, Duncan, Allegra and I have laid out our plans on how we will become a high-performing company with a resilient balance sheet. We will get there by delivering on the following targets: reducing gross financial leverage to between EUR5 billion and EUR5.5 billion by 2023; implementing an operating expense savings program of EUR400 million over the next three years; generating free cash flows of EUR1.4 billion to EUR1.6 billion over the next three years; and growing dividends to shareholders to around EUR0.25 per share over 2023.

Before handing it back over to Jan Willem, I would like to emphasize that this management team is confident that through focused execution on our strategic priorities, we will achieve our financial ambitions. The strategic decisions we are taking will lead to a stronger and more resilient company going forward, and importantly, attractive and sustainable capital distributions to Aegon shareholders.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt, for your presentation. I would now like to ask Lard to come back to the stage to wrap up the day before we go into our second Q&A session.

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Jan Willem. Let me summarize what we have shared with you this morning. We have explained how we want to transform Aegon. I hope you got a clear sense of how we want to achieve this. In my presentation, I talked you through the choices we have made and where we will be looking to compete based on the strength of our market position and the opportunities to capture value.

We are focusing on three core markets, three growth markets and one global asset manager. Duncan explained to you that our equity story revolves around capital reallocation. We are looking to release capital from financial assets at an attractive cost of capital, and we'll reinvest it in our strategic assets to grow them profitably and increase margins which should lead to multiple expansion. This focus on value creation has guided the choices we have made in our detailed operating improvement plan.

Allegra conveyed to you that we have a good understanding of the relevant risks for Aegon and that we will reduce our reliance on market movements in favor of commercial growth, effective capital deployment and operational improvement.

Lastly, Matt took you through our capital management philosophy and the actions we are taking to strengthen our capital position. We therefore want to maintain an adequate level of capital in our units and cash capital at the holding. We also intend to reduce our gross financial leverage in order to strengthen our balance sheet and reduce our risk profile.

A strong balance sheet and a sustained improvement in our operating performance are the basis for our target to grow free cash flows. These growing free cash flows will translate into growing dividends to shareholders in the coming years. As a team, we have announced several important strategic choices to transform Aegon and have laid out a roadmap on how we will achieve our goals.

We have an experienced management team with a track record of managing large and cash-generating balance sheets and creating value for shareholders. We have taken action, we have reset reserves, reset dividend, paid down internal leverage, and merged are two large life insurance carriers in the U.S. In addition, we have announced the divestment of Stonebridge in the UK, sold the Transamerica Pyramid, and announced the divestment of our Central and Eastern European operations.

And most importantly, we have our employees who have demonstrated throughout this pandemic that they are deeply committed to service our customers, support our business partners and to Aegon's future. We are excited about the opportunities ahead of us and are determined to make this transformation to success.

You now have the opportunity to ask further questions in our second Q&A session. All presenters of today are here to answer your questions.

With that, I'll hand it back to Jan Willem to open the Q&A session.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard, for a great wrap-up. We will now continue with the second Q&A session. But first, we'll start with few questions that have either been raised in the previous session and also one that has been coming through us via email. Technology is often our friends, we have seen this one analyst who unfortunately could not ask a question live.

The first question then is for Lard. Lard, could you please explain what you mean when you talk about maximizing the net present value? And what will Aegon do with any potential capital wind force?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you very much for that question, Jan Willem. As I said, this pertains, I presume, to the financial assets. I've said that we will be rational financial owners of our financial assets. And I would like to underscore that the classification to financial assets is significant, because they represent 43% of the own funds of the entire group. So it's significant classification. The financial assets are going to be run by dedicated teams. And their objective is to maximize the NPV of the cash flows of those financial assets.

Now, what does that mean? That means that either higher cash flows emerge, or they emerge faster, or they are less risky. By doing so, our dedicated teams will need to consider many options. And for that we will keep an open mind to organic options or inorganic options, and we will behave rationally.

Now, I think the second piece of the question was about what to do with the proceeds? Should they emerge from this? Obviously we'll go back to our capital management policy, which is outlined this morning by Matt. And which is that anything that we have as free cash flows that we need, beyond and above what we need, goes back to stockholders, most likely in the form of share buybacks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. The second question received by email is for Matt. Matt, can you please indicate what the report -- consequences are of separating our business into financial assets and strategic assets?

A - Matt Rider {BIO 20002664 <GO>}

Yes. Thanks. Thanks very much. At this point, we wouldn't envision any big reporting changes in terms of, let's say, the press release and our regular disclosure. However, what we will be doing is giving you supplemental disclosure on the financial versus the strategic assets going forward. Thanks, Jan Willem.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Matt. I have a quick reminder for those people who have pre-registered for the Q&A session. If you want to raise another question for this second Q&A, please raise your hands by using the button on the screen and we'll put you back in the queue.

So we have a couple of questions left from the first session, which are all for Matt. Starting off with the first one, Matt, can you please talk about the IFRS impacts of -- on the one hands, the interest plan that Allegra talked about as well as the hedging of the legacy VA book, please?

A - Matt Rider {BIO 20002664 <GO>}

Yes. Thanks, Jan Willem. I see we have some very good questions from the morning session. I'm glad to see that they're there so well thought out.

So with respect to the IFRS impact on the interest rate risk management plan, we're talking about a number about $65 million once the full plan is implemented as a negative impact on IFRS earnings going forward.

The impact of hedging the legacy VA book is actually -- that one is a little less clear. In that we do need to take some time here to figure out exactly what we're going to be doing in terms of the dynamic hedging program and also what accounting regime that we would adopt as a consequence of doing that. So that one is -- that one will come later.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Matt. The next question was from Cor Kluis. The question is, why is 150% Solvency II to ratio sufficient for the Dutch Life business?

A - Matt Rider {BIO 20002664 <GO>}

Yes, may be good at this point to just reflect back that the 150% that we're putting out there as the operating level is that for the legal entity, the Dutch Life business. For you who aren't really familiar with Aegon, we have typically presented an overall solvency ratio for the Netherlands as a whole, which has typically been like 10 or 15 percentage points higher than that for the life company ratio. We've taken the decision to start reporting the life ratio going forward, because that's how we really manage the capital in the business.

I would also maybe point out that if you look at that ratio relative to peer companies within the Netherlands, you would see that this is a legal entity ratio, whereas if you looked at another company in the Netherlands, it would be at a holding company level. And just a brief reminder that we are holding potentially capital buffers in cash capital at the holding company. So we have that as a buffer on top of the legal entity solvency ratio that we currently operate under.

And then finally, I think you probably saw from the presentation and also from Allegra's presentation that we do anticipate that the volatility of our solvency ratio in the Netherlands is going to be coming down here. So we feel actually quite comfortable with operating to that operating level of 150%, which we will manage to over time.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. And the next question was from Robin van den Broek. He asked what will we do with our grandfathered debt with the 2025 deadline emerging, given the low funding cost of our current grandfathered debts?

A - Matt Rider {BIO 20002664 <GO>}

You see that -- so we have about -- you've seen in the presentation, we have about EUR2 billion of grandfathered restricted Tier-1 that we are going to have to replace before 2026. And we've got about EUR700 million of grandfathered Tier 2.

Now the challenge is that the -- let's say the hybrid securities that we currently have on our books actually do have quite a low cost associated with them. So for the grandfathered restricted Tier 1, you're looking at about an average of 1.2% for financing costs. And I think for the EUR700 million Tier 2, it's about 4%.

So when we do refinance, we're going to be looking at a higher cost of that debt. So on one hand, we want to be able to replace those securities in a timely manner, but also, we have to recognize that our cost of that funding is going to be going up over time. So we do have to balance that that's out of it.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Staying on the topic of leverage, Matt, can you explain why the leverage target is an absolute target instead of a range?

A - Matt Rider {BIO 20002664 <GO>}

Yes. We chose for that EUR5 billion to EUR5.5 billion target, recognizing that we definitely wanted to lower the number, but also reflecting the fact that we should be looking at a number of metrics. We have looked at the traditional IFRS metrics, but we also looked at our ability to cover the cost of our debt looking at our ability to generate capital.

So we finally fixed on that EUR5 billion to EUR5.5 billion number, also recognizing that you'll see that a lot of our targets are based on 2023, so a three-year time period at which we're going to be in a whole new accounting regime under IFRS 17 anyway.

So we decide to just let's keep it simple, let's target an absolute number, EUR5 billion to EUR5.5 billion and then we'll see how that goes on. But that's a number that we actually feel quite comfortable with, especially given the way that the trajectory of cash capital generation is going in the plan that you have seen.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. We have one more from the first session, but I'm sure we'll be back to you after that as well. What will be the ROE for core markets at the end of the plan, say 2023? This is question from Fulin.

A - Matt Rider {BIO 20002664 <GO>}

Yes. So I think you've seen in the presentation now that once we get into 2023, on -- again on a consistent accounting basis, we are targeting something in the range of EUR1.7 billion to EUR1.8 billion, which is broadly in line of where we were in 2019, a little bit of an uptick there. But again the bigger driver of 2023 is going to be we are going to operate under a new accounting regime with IFRS 17 coming into play at that point. So I'm sure at some moment in time, we will give you more information on that, but not during this session. Thanks, Jan Willem.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. And we'll now go to the live Q&As again. A reminder, you can ask questions to all presenters, they're all available here for you. The first question comes from Farooq Hanif from Credit Suisse. Farooq, we can see you. Go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks very much for this day. I want to come back on the growth assets, your choice of keeping those. I think some of us maybe expected that you would look for other options. So the market for trade and trade buyers for these assets is clearly paying much, much higher multiple than insurance equity investors are willing to pay for them. So I'm just kind of wondering what made you keep businesses which, in the scale of some of your competitors, are probably quite small. Spain and Portugal, I understand; but China and Brazil, I'm a bit confused.

Secondly, in the workplace savings, you are -- it sounds like you're turning around completely from this strategy of -- in the U.S. of going for jumbo schemes, the whole Mercer acquisition. What happens to all of that? And what's the risk that you just get more outflows as you shift that strategy.

And I guess the third point is around the VA, the legacy VA book. I just want to understand a little bit what you're saying when you talk about this timing, if you're going to take up to 12 months to decide the appropriate hedging approach. Is this because you're having conversations with other parties? I mean are you trying to also tailor this not just for accounting, but you have a disposal in mind? So can you talk about sort of the timing of that essentially being dealt with and no longer being an issue for us. Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Farooq. Starting of with the first question on the growth assets, Lard, can I give that one to you, please?

A - Lard Friese {BIO 17008174 <GO>}

Yes, Farooq. Thank you very much for your question. I would like to -- yes, so first the following. We are very happy with the joint venture partnerships that we have in Brazil, in China and in the Iberian Peninsula. And those three markets are actually very attractive for us, also for the future as you build your business. The current joint ventures are all profitable. And they are all well positioned and they grow fast.

So to give you an idea, let's talk about Brazil. In Brazil, we have a joint venture partnership, which is profitable, which has outpaced the pace of growth for the last five year years versus the other independent not bank affiliated insurance companies. It's a great management team, are doing a great job there, and they will continue to grow their business in the coming years in the future.

In China, there's two joint ventures, both profitable. One of the life site which has maintained the pace of growth of the Chinese -- of the growth of the Chinese market. And secondly, we have a joint venture partnership on the asset management side, which is growing very fast and is also profitable. These two markets, China and Brazil, both as you know, have very interesting growth dynamics. And therefore, are a great way to build your business for the future and they are profitable. They are currently together with the Spanish business, already having a net capital generation together combined roughly 50 million, and that will grow over time as they progress there margin expansion.

Now on Spain. Spain is a large market with Portugal. It's a large market. It's underpenetrated. We have a JV with Banco Santander, which we have expanded after Banco Santander acquired Banco Popular. So also that gives us a lot of room to expand the profitable JV that we have there.

So it's all about good businesses located in the right markets with good management teams who have delivered on the track record -- have a track record of being able to able to grow and expand the margins. And yes, that's what we aim to develop over time.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. The other question from Farooq I think was around the retirement plans. What our plans are there and especially in relation to the large part of the market? Duncan, over to you.

A - Duncan Russell {BIO 21983913 <GO>}

Morning, Farooq, good to see you. Dealing with your two questions, on retirement plans, I hope one of the takeaways of today is that with respect to our strategy, we've made choices. And the choices we've made in the U.S. retirement market, which is large and fast growing is to renew a focus on these small and mid-sized plans. And the reason we're doing that is because we believe that we are very well placed in that market to first grow, but also to increase our margin through greater penetration via ancillary services, which I discussed in the presentation this morning. Of course, we're still a player in the larger scheme market. We'll just be a bit more opportunistic in our decision-making there also with an eye on margin and growth.

On your second question, which was around the VA and the timelines and the clarity of the message. I'm trying to be a bit clearer. The VA book has been classified as a financial asset. We have seen that the market for legacy VA books has started to open up, but it's complicated and it's something which would require a bit of time for us to work through. We've decided that the order in which to assess that is first to look at our hedging of the GMIB/DB legacy book, and that will take 6 to 12 months as indicated, but we have already started that work.

At the same time, as with all financial assets, we do intend to be a disciplined financial owner. And that will obviously involve with the respect of VA book, assessing also in organic ways to maximize the net present value, which Lard touched on with respect to previous question.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. We now invite Andrew Baker from Citibank for the second round of questions. Andrew, go ahead.

Q - Andrew Baker {BIO 3694545 <GO>}

Great. Thanks again for taking my questions. So three if I may. First is on the normalized capital generation. So if I look back at the previous '19 to '21 targets, it was EUR4.1 billion. So 1.3 to 1.4 per annum. The new targets obviously 1.1 in 2021 going to 1.3 in 2023. I understand a lot has changed in the world since the original targets. But what's primarily driving this rebasing? Is it lower rates, defaults, your UFR definitional change? Or is there something else going on? I'm really just trying to get view into your underlying thinking about the capital generation capacity of the business and whether this has changed?

The second is on the updated Solvency II modeling of the Netherlands and the reduction in volatility there. Has that been approved by the DNB? And relatedly, what are you expecting from the upcoming EIOPA review?

And then finally just on U.S. mortality, appreciate a new sensitivities. Thank you for providing that. Are you able just to comment on the actual mortality experiencing in the second half versus what you experienced in the first half? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. Andrew. Matt, over to you first on the question regarding our capital generation, how they compare to previous targets.

A - Matt Rider {BIO 20002664 <GO>}

Yes, thanks very much. I guess the short answer is the all of the above that you have mentioned are influencing the capital generation. So a part of it is the fact that we are --

that decrease in the UFR is reducing normalized cap gen in the Netherlands. But also, we do have an expectation, especially in the near term of elevated credit impairments, and frankly mortality as well. Now, that'll even out over time we think. But at this point, the normalized can gen is being affected there. So I think it -- and low interest rates of course are doing a piece of that. Yes. So I would end it there. Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. We're staying with you, on the approval from DNB regarding the changes to our internal model that we are looking to implement, as well as any comment on the EIOPA review.

A - Matt Rider {BIO 20002664 <GO>}

Yes. So I think you've seen that we have taken quite some management actions in the Netherlands to be able to reduce the volatility of that ratio, which has really been a thorn in our side and has really been an important one. So on the first point, we have moved more into corporate credit. So this is moving us already closer to the VA reference portfolio, but on the second point, and that is really reducing the basis risk, primarily between the mortgage portfolio and the way that the EIOPA VA is applied. We do not yet have regulator approval on that, although we do expect to be able to report on that basis when we get to the year-end 2020. So we're close there, we're all aligned on this one. I think it's a -- it has been an interesting discussion with the Dutch Central Bank on this point, because I think from there from DNB side and from our side, we recognize that there is quite some uneconomic volatility in the solvency ratio which needs to be repaired. So we've had constructive discussions with them. And again, we would expect to be able to implement that at the end of the year.

In terms of the EIOPA review, well, we are all sort of waiting for the advice to come out. So it'll be another couple days now, probably next week. So they've committed to come in with their advice before Christmas. What they have said publicly and what the DNB has said publicly to is that they would not expect to see significant pluses or minuses with respect to capital levels across the European industry. So that's what we have to go on right now. We had seen their previous advice. There were some pluses and minuses in that different -- different kinds of methodologies for the Solvency II discount curve. And specifically, they introduced the idea of a different extrapolation methodology. But by the same token, they had telegraphed the fact that they may be reducing effectively the risk margin by taking down the cost of capital at longer duration. So we're all kind of anxiously awaiting what the outcome of that is going to be. And then ultimately, we do have to go through a political process to have that enacted into law.

I should have mentioned one other point and it goes back to your second one on the VA, as we anticipate getting approval for this new methodology, but it would be only in place until ultimately the new -- whatever the new changes to Solvency II would be enacted, likely in 2023. But that is still one that's on the table too as to what extent EIOPA would recommend changes to the -- to that calculation methodology on the VA. Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt, for the comprehensive answer. Andrew's last question was about our claim experienced, more specifically mortality experienced in the U.S. in the second half of the year.

A - Matt Rider {BIO 20002664 <GO>}

Yes. So on mortality experience, we are still seeing elevated mortality and we are seeing COVID claims. There's no question about that. And we would actually expect to see that coming through at elevated levels given the infection rates have been going up in the U.S. The interesting side and it's sort of the flip side is we've had largely an offsetting impact on the -- on morbidity claims. So effectively what you're seeing is people -- older age people that might otherwise be thinking about entering into a long-term care facility are actually not going into those facilities for fear of being infected by COVID-19. So at this point in time, we're seeing quite an offset in that area. But certainly, we are going continue to see just on the mortality side elevated claims.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. I think we have a follow-on question from Andrew. Andrew, can you repeat that please? We didn't hear you just now. I think we have a technical issue. (inaudible) that Andrew, I think we have -- can you try it again, Andrew?

Q - Andrew Baker {BIO 3694545 <GO>}

No more from me. I was just saying thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

You're welcome. Then we can move on to the next question. That's Michael van Wegen from Bank of America Merrill Lynch. Michael, go ahead.

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

Yes. Hi, there. Good afternoon, guys, or good morning, actually. Three things that I wanted to check. First of all, Matt, I think you suggested that the EUR650 million restructuring charges, part of that related to the already announced TCS and Atos programs. So can you help me clarify how much of the EUR400 million cost savings and the EUR650 million restructuring charges is actually incrementally new today versus what had already previously been announced?

The second question I want to come back on the operational capital generation guidance, EUR1.3 billion by 2023. I think Duncan earlier on indicated that the split between strategic and financial assets, the contribution from each segment should be relatively stable over the period of time. But if I look at the underlying earnings slide in your deck, Matt, then it looks like the run-off businesses will lose about EUR100 million earnings per year over the plan period. You get obviously also the SCR run down over that same period of time. So can you help me understand a little bit what SCR relates to your run-off businesses, how that is meant to run down and how important is that still by 2023 in the EUR1.3 billion? Because it feels to me like the EUR1.3 billion is still quite heavily weighing on dependent on the run-off businesses. So how sustainable is that?

And the final question. In the past, management has talked about difficulty in divesting some of these financial assets or run-for-value kind of operations, because they were not in separate legal entities and difficult to separate. Lard, can you talk a little bit, or Duncan, can you talk a little bit about the complexities there or how -- perhaps, easy it might be to do stuff like that? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Michael. We'll do them in reverse order if that's okay. I mean we'll start with the last one and I'll hand it over to Duncan. Duncan, can you comment on any complexities around financial assets and potential divestments?

A - Duncan Russell {BIO 21983913 <GO>}

Hi, Michael, thanks for the question. And any divestment or acquisition is obviously complex, but there's nothing insurmountable we would see here if we were indeed to decide to dispose of a part or all of a financial asset. It would obviously take time and there will be things to work through, but there's nothing insurmountable we see.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. Then two for Matt, starting off with the SCR release of financial assets and how that will look like in the future. Matt, over to you.

A - Matt Rider {BIO 20002664 <GO>}

Thanks for your question. So the SCR run-off for financial assets in the future is still going to be a significant portion of the -- it's going to be a significant portion of capital generation, no question about that. But as Duncan and Lard has said, we do we do intend to run those financial assets, so the whole point of that is to the extent that we can accelerate cash flows, then that would be good. So we are currently standing at about 43% of our own funds, sitting in those financial asset categories. And they will continue to be a significant part going forward. But the important thing to focus on is that they will become a relative to the overall piece of capital generation. They will run down over time, they will run down over time.

Now how it works with capital generation for the strategic assets, we have that balance between earnings on the in-force and also the new business stream. So as we've said, we are investing quite a lot in terms of growth opportunities, specifically within the U.S. So the capital generation is a little bit more of a mixed message on the strategic side.

A - Jan Willem Weidema {BIO 15133400 <GO>}

It was great, Matt. Thank you. Michael's last question was around expense savings and how much of the EUR400 million expense savings related one-time charges that have already been previously announced.

A - Matt Rider {BIO 20002664 <GO>}

Yes, good question. So we've announced is that EUR400 million expense savings program and basically EUR650 million below the line charges over the three-year period to be able to get that plus another EUR150 million in earnings improvement through growth initiatives.

What we've done is we've put basically all the restructuring charges below the line, including the ones that are related to Atos and TCS. But the benefit that we are taking, and the way that we are reflecting it in the presentations, is using 2019 as a baseline number, 2019. So to the extent that benefits had already been reflected from those outsourcing initiatives in 2019, then they're already incorporated and they are part of that 2019 earnings base.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. Before we move to the next question from Will Hawkins, I would like to remind everyone, or at least two people have pre-registered to ask questions is you can hit the raise your hand button and ask any follow-up questions if you would like.

The next question is from Will Hawkins, as I said. So Will Hawkins, we can see you now. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you for taking my questions. First of all, Matt, just a small point of clarification related to an earlier question. On slide D-11 when you're showing that EUR1.1 billion of normalized capital generation, can you just clarify for me what is the 2019 historical that compares with that? That's the first question, small clarification.

Then secondly on slide D-15 when you're showing your roll forward for earnings, you made reference there to margin compression. I mean a lot of the choices that you guys are talking about were about improving the margin. So can you just explain what the margin compression issue is and how that fits in with the focus you've got on expanding the margins through the business plan?

And then lastly please, can you just help me understand a bit more about the scale of the ambition in America with regards to this top five target? I'm not entirely sure where you're starting from. And so I'm trying to get a feel what kind of growth that requires you to achieve. Are we talking about a little bit of growth or a massive increase?

And can you also talk about how you're measuring that and what that means for the risk in your business? Because my sense is that you're measuring your market position on the basis of flow items. And actually sometimes it's going to be very easy to get your flows to vary, but there can be quite big issues related to balance sheets and economies of scale behind the scenes. So how exactly you're going to be measuring that performance in terms of the balance between the flow and the stock of your market position? Thank you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Will. We'll start off with the last one around our workplace business in the U.S. and the question is around how -- what we're doing there to manage the margin. Duncan, can I pass that to you, please?

A - Duncan Russell {BIO 21983913 <GO>}

Sure. I don't know if I fully understood your question, Will. But I'll try and give an answer. If not, please follow up. With respect to the top five -- with respect to the life products we've chosen to stay in, that is a significant ambition. We're not in the top five today, and it would require double-digit percentage growth in sales to achieve that. We are measuring that with respect to sales.

However, the implication that we would -- I think your impression was that, that may not be an optimal expression overall of financial outcome. I can assure you that the reason we've chosen to stay in the products we have chosen in, chosen to stay in is because we think we have a competitive advantage there and we have good distribution, good brand, good access to data. And it's really about renewing our franchises in those product lines, as Transamerica has historically been very strong there. And it will require quite a significant effort to achieve it, and that's why we have such detailed plans, which we outlined to you today. I hope that answers the question.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Duncan. The first question from Will was around 2019 capital generation on a comparable basis. Matt, can you take that one, please?

A - Matt Rider {BIO 20002664 <GO>}

Yes, certainly. So in 2019, we had normalized cap gen of a little bit under EUR1.6 billion. But I would tell you that the basis is somewhat different than what we have today. You recall that we have, for example, lower normalized cap gen for the UFR decrease. And there's frankly quite another -- there's quite a laundry list of variances, which I'm going to ask our IR colleagues to come back and give you the detail on. But it is -- it's actually easily reconcilable, but there are quite a number of line items there.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. Will, I happened to have missed your second question. So would you remind repeating?

A - Matt Rider {BIO 20002664 <GO>}

I think it was on the earnings roll forward, specifically related to margin compression. So if you think about it, and probably retirement plans business in the U.S. is one of the better examples of it. You can imagine that for employer-sponsor customers that we currently have, they will come to us from time to time and say, "We would like to put this out for a request for proposal." And in order to retain the business rather than going external, we may have to reduce our pricing somewhat.

So that, and I would say also in the U.K. business, particularly in the workplace, the work site side of the business, you see margins generally come down over time. But what Duncan and Lard have said in their earlier presentations is well, in order to counteract that, we need to have initiatives actually to expand margins back up. As Duncan has said, we don't simply want to be a plan administrator. And that's the way that you can grow your margins in that area. Thanks, Jan, back to you.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. I'm just getting a question from the war room as well through that for Allegra. Allegra, you're talking about the interest rate management plan. Can you talk about why we're taking action today, and why that hasn't happened before and why now is the right moment to act?

A - Allegra van Hovell Patrizi

Thank you, Jan Willem, and of course. So as Lard has outlined, we really have an intention and choice to reduce the macroeconomic exposure of the group in favor of the execution of the operational improvement plan. And so the reduction of the interest rate macroeconomic exposure fits well into that context.

Now in order to come the optimal solution, if you want, we have taken into account a number of constraints. And those included things like the impact on capital, RBC, on capital generation, on financial impacts on liquidity and a number of other dimensions. And we came to the plan that we've presented to you, which we believe achieves an optimal balance along all these constraints. Because if you look at it, what we've announced is going to achieve 1/3 to 1/2 of reduction of macroeconomic exposure, while at the same time maintaining the initial impact on RBC essentially neutral; on capital generation, similarly essentially neutral.

And what that means is that actually our cash flow testing resilience is going to be much better. And why is that relevant? It's because it makes the dividend plan that Matt has talked about all the more solid. So I think with these elements, you understand why that choice fits very well into the context that we've outlined today. Thank you, Jan Willem.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Allegra. The next question is live again. It's from Benoit Petrarque from Kepler Cheuvreux. Benoit, we can see you. Please go ahead.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good afternoon, everyone. Yes, a few questions on my side. The first one will be on the slide D-15 on the earnings roll forward. I'm looking at the last bucket, which is growth and other of EUR150 million. I guess this is a net from the expense increase linked to the growth on that bucket. It's about EUR150 million. So that will put the growth contribution at about EUR300 million. So just wondering if that's correct, and if you could also talk a bit about or you plan to grow the earnings -- pretax earnings by EUR300 million roughly by 2023?

Second question is on the management team. At the end of the day, we have not seen much changes on that front. It looks like the management team is broadly unchanged, except Duncan and Lard obviously. But just wondering if we are done there in terms of reviewing the team or not. And just briefly on the free cash flow and the remittances, do you have any breakdown per country? Or did I miss that in the pack?

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Benoit. If you allow me, I'll split the first question into two pieces. I'll ask Matt to elaborate on the numbers, and then Duncan to add anything on how we plan to achieve that. Matt, over to you.

A - Matt Rider {BIO 20002664 <GO>}

Yes. Thanks, Benoit. So with respect to the earnings, so earnings from growth initiatives is indeed in that number. But what that is showing is we are making capital investments in the business to be able to grow. And the EUR150 million, you can think of it as kind of a revenue number minus the running cost, the running cost of the business. So I'm not exactly recognizing your net EUR300 million number there. But in general you have it right, the EUR150 million is a net cost.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. Duncan, do you want to add on our plans to grow the business?

A - Duncan Russell {BIO 21983913 <GO>}

The only thing I would add is that the plans are ambitious and detailed, and there's a certain element of staging in them. For example, in the U.S. workplace, we're positioned to grow today, and we are seeing very good growth. Whereas in the individual solutions business in the U.S., we've had to make significant -- or we have made significant product choices shutting down certain product lines where we don't believe we can add value and grow at a reasonable rate of return, whilst investing heavily in the product lines we've outlined to you where we do think we can hit an IRR of 10% to 12% and achieve growth on the back of our strong competitive position. But it will take a bit more time because it first leads to have a bit of investment and improvement of our proposition.

In the Netherlands, we're extremely well positioned. We're a market leader in defined contribution pensions and are market leader in mortgage origination. And we expect continued solid growth from both of those product lines from now. While in the U.K., we're -- we have a scale position both in workplace and in retail. In workplace, we're positioned to grow and continue to grow today. In retail, we are making investments. And therefore we expect the growth to be a bit more back-end loaded than workplace.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. The last question from Benoit was around remittances and the detail by country unit. Matt, could you take that one, please?

A - Matt Rider {BIO 20002664 <GO>}

Yes. Thanks for that one as well, Benoit. There is a slide in the pack that talks about the gross remittances in total. So they're given in ranges. So I think for 2021, we're in a range of EUR600 million to EUR700 million. That grows to between EUR900 million and EUR1 billion by 2023.

And then in the top, you can see kind of a legend that that shows -- it doesn't give exact numbers for the three major country units, but it gives sort of little bars. I'm not asking you to take out your little calibers and try to measure the height of each one of those tiny bars. But the point that we're trying to get across here is that there is some uncertainty that exists out there, but also we do have some flexibility where we can get our cash flows from. And that kind of reflects the way that we put that on the graph.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Matt. I almost forget over your second question, Benoit. Sorry for that. So let's turn to Lard to discuss the management team.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Benoit. Thank you very much for your question. Today, we have announced some very significant choices that we've made about the countries that we will focus on, about the separation between financial assets strategic assets. Those are very significant decisions that we've taken, and we're going to take the organizational implications for that. That's also what we announced today.

So we are blessed with a lot of talent in the company. But we need to make sure that talent is appointed in the places where they have the most impact and which also represents -- if you -- that the skill sets that you need, for instance, running the financial assets, or the skill sets you need for running a growth business are really commensurate with the new assignments that we are giving to the businesses in this new strategy. So the right person in the right spot is something that we are definitely going to do. This pertains to everybody in the company, by the way.

And finally, I'd like to say the following, which is that we've already acted. We've already acted. Indeed, you're pointing to my arrival. You're pointing to Duncan's arrival. But also in the United States, we've appointed two CEOs for Solutions and for Individual Solutions, two very talented leaders. And we've also replaced management in TLB, the niche business focused on high-net-worth individuals. So we are acting, and we will continue to act to make sure that we're set up for success, and we put the right talent in the right place. And where needed, we will also invite new talent outside from the company to come in because we are determined to make this transformation a big success.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard The next question is from Farquhar Murray from Autonomous. Welcome back, Farquhar.

Q - Farquhar Murray {BIO 15345435 <GO>}

And just three questions, if I may, firstly, o capital generation. Could I just ask how new business trend looks in terms of the forward plan and how that compares to previous recent history? Because obviously to a degree, you're putting some businesses essentially into a note -- closed two new business. And obviously you're trying to push in other areas. So I just wondered how that is shifting.

And then secondly, just coming back a little bit technically on the Dutch volatility adjustment. Maybe I take it from what you said out there, essentially you're looking at some kind of mechanism within the internal model to try and take out the basis risk on mortgages. But any detail there might be helpful.

And then finally, a follow-on on the Solvency II review. If we just go rewind back to the March 10 advice, could I take that when you run your numbers through that? Was that largely just puts and takes and largely manageable?

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks. We'll take them in reverse order. Matt, all three for you, starting off with the impact of the Solvency II review by EOIPA.

A - Matt Rider {BIO 20002664 <GO>}

Yes. Again, Farquhar, it's tough to say. So when we looked at it, it was really, as you say, it puts and takes for -- we're getting a hurt from a different kind of extrapolation methodology and going to the ultimate forward rate. And we're getting a benefit effectively from a lower risk margin, particularly at the lower or at the higher durations.

The VA is still unclear. And frankly the advice itself that EIOPA will come up with in just again next week, we're all going to be looking with great interest on what that ultimately will be. But -- so we'll it's too early to make any comments on the effect of on that. And also, let's recognize that it's still whatever is proposed is just that, still proposed. And it does will ultimately need to be enacted in some form. So there'll be more information that we can give on that once we get through an analysis of whatever EIOPA puts out in the coming week.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. Can you also take the next one please, on how the new business trend looks in our plan compared to history?

A - Matt Rider {BIO 20002664 <GO>}

Yes. So I mean if you start from 2019 as a base, what we're seeing is the -- if you sort of annualize the first half new business strength, you would see it's down. So new business strength is down. We had repriced the variable annuity policies or contracts that we were selling, and we were seeing lower volumes. And now that we have decided to exit the new sales of those capital-intensive and interest rate-sensitive variable annuities, we would expect to see it come down even a little bit further.

But then we are -- and Duncan has talked about this in his presentation, we are looking to grow the life insurance side of the business. So there is a little bit -- there is a little bit of a dip. And depending on how successful we are in implementing these growth initiatives, that will be the driver of the shape of what that new business strength looks like. For the near term, we're being driven more by the exit of the sale of these capital-intensive variable annuities.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Matt. Is there anything you want to add on the internal model changes that we're planning?

A - Matt Rider {BIO 20002664 <GO>}

Yes. I think the appropriate time to talk about that is going to be at the first -- when we talk about the end of the year results. By that point, we expect that we will have regulatory approval and that we will have the benefit effectively reflected in the reporting that we do for year-end 2020. So I just wanted -- because we do not have regulatory approval on it yet, I prefer to talk to it after we have that. And we can be more fulsome with that discussion when we do our year-end results.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Great. Thank you. We have time for two more questions. The before-last one is from Fulin from Morgan Stanley. Welcome back, Fulin.

Q - Fulin Liang {BIO 21126177 <GO>}

So I have -- actually I have three questions, if you don't mind. Thank you for your time. And actually the first one is I just want to, if I didn't make myself clear, I wanted to know actually the ROE of the strategic assets you chose to grow? Because I wanted to know where Aegon is heading to ultimately, so assuming the current accounting methodology and then assuming you implement everything in by 2023.

And then secondly is I just want to clarify, I understand correctly. So your free cash flow target in 2023 is EUR650 million to EUR750 million. And the cost of dividends would be only roughly EUR500 million. So that will leave about EUR150 million to EUR250 million for potential either buyback or other valuation -- value creation opportunities. Is that fair?

And then my last question, I just want is a quick one. Just wanted to make sure I did not read too much into what Lard just said, that you said you wouldn't actually redomicile the group. Does that mean actually you will not dispose the Netherlands book in the next three years?

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Fulin. Let's start with the last question, Lard that one is for you. Can you talk about our plans for the Dutch business, please?

A - Lard Friese {BIO 17008174 <GO>}

Yes. So thank you, Fulin, for your question. First, we have made choices today for the core markets that we are going to plan for the future, and we're going to focus all our energy on and for the growth markets and the global asset manager. And one of these three core markets is in fact The Netherlands. Within the Netherlands, we have classified the life company, Aegon Leven, as a financial asset, and the other businesses largely as strategic assets. So the mortgage business, the contemporary pensions business, the bank, et cetera. We will run an Aegon Leven as a plan financial owner and behave rationally there and work with a dedicated team to maximize the NPV of the cash flows. That's what I've said about this earlier. That's about The Netherlands and for the strategic assets, we aim to grow them and expand them in terms of margins.

Now to your second piece of your question, let me just reconfirm what I said earlier. We do not have plans to redomicile the group.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Back to you, Matt, and for the next question. Matt, can you expand on the ROE, in particular for the strategic assets, please?

A - Matt Rider {BIO 20002664 <GO>}

Yes, Fulin. So in part, my answer from before still holds and that we are going to be under a different accounting regime at that point. But let's recall what we are classifying as strategic assets. So these are ones that already have reasonably high returns. So we would expect to actually be able to grow, let's say, on a same consistent basis, we would -- we expect to be able to grow the ROE over time, again, same basis. But again and I think you see it from our financial targets, we really emphasized the capital side of this, the capital generation, the return of capital to shareholders and those kind of things, and less so much on the IFRS side of things. So I think that that's an important point.

Another point that I would make in this is, or let's say we've seen generally in the IFRS earnings forecast that we've put out there for 2023 is broadly in line with where we were on 2019. And -- but I really want to emphasize the increase in the quality of those earnings. The increase of the quality of the earnings and capital generation that we expect to see within Aegon here as a consequence of the choices that we are making, as a consequence of derisking, as a consequence of deleveraging, as a consequence of interest rate risk management plan and dealing with the legacy VA book. So I would anticipate that the quality of those earnings, the quality of that ROE, however you want to define it over the plan period, is going to improve actually quite a lot. And that's I think the more important message on the, I would say, on the ROE side.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thanks, Matt. From capital generation and free cash flows to what we do with those, can you talk about what to do with the part of free cash flow that is not used for dividend?

A - Matt Rider {BIO 20002664 <GO>}

Yes. I always go back to the capital management policy. So your math is generally right. Let's also recognize that we don't know how things are exactly going to emerge over time as we get in the let's say the aftermath of COVID-19. We recognize that there are a number of strategic priorities that we want to act on, including deleveraging which is itself back-ended. But also we have to execute on the interest rate risk management plan, deal with the variable annuity block.

So we are being, I think, prudent in our forecast. But let's be clear, and I think Lard and Duncan have both said it, that to the extent that we have -- that we don't need the money, that we don't need the money, the first priority is to return it to shareholders. And that would be in all likelihood through buybacks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you very much. Fulin, thank you for your great questions. We'll now move to the last one in a row for today, which is Farooq Hanif from Credit Suisse.

Q - Farooq Hanif {BIO 4780978 <GO>}

So one numbers question, in the legacy VA book, can you give us an idea of what proportion of required capital in the U.S. roughly is invested in legacy VA that you're addressing?

And then secondly, I'm aware of the regulatory change of Dutch pensions where even for existing plans, you can divert all the new business or sort of a contribution -- sorry, into defined contribution. Is that part of your plans? Because I would have thought that creates a faster runoff. So is that part of your plans? And what opportunities do you see from that?

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you. Lard, can I give the first one perhaps to you -- sorry, the second one, perhaps to you on defined benefit fund contribution pensions in The Netherlands?

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Farooq, for your question. Indeed, in The Netherlands employers with a defined benefit plan, given the low rate environment, often choose as they get the quotation for the next contract period, often choose to stop their DB plan for their existing employees. And then say also for their existing employees, they are going to move to a defined contribution plan. Now there is usually a transition period, which takes quite a bit of time because depending on the size of the company involved, you need to discuss it with workers councils and with trade unions and the like. So it's kind of a transitional phase in which this needs to happen.

Part of those discussions, i.e. with the trading partners, if you will, could entail what pieces in the original contract could be rolled over into defined contribution premiums. But it is exactly, let's say, this space, this transition from defined benefit group defined benefit plans to defined contribution that Aegon is actually very, very good at in The Netherlands.

And we have multiple vehicles solutions for that transition to this DC environment. And in addition, we have an ecosystem of additional ancillary products that we also are able to offer these new defined contribution plans to the employees. And that is exactly the kind of strategic asset dynamic that we want, which is the growth to a more capital-light, margin-expansive model on the back of a very large existing client base.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Lard. Just to make sure I understand to your last question correctly, Farooq. You're looking for the required capital legacy VA book? I'll pass it on to Duncan, if that's okay.

A - Duncan Russell {BIO 21983913 <GO>}

Thanks for the question, Farooq. In my slides, I think I outlined or gave the detail for the CTE98 and the CT70 of the total VA book. And the required capital, the CT required capital for the VA block and the RBC is CT98 minus CT70 divided by 4. If you want any further splits of that, I suggest you go to the Investor Relations afterwards.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, Duncan. That brings us to the end of the questions from the analysts, but I have one last question for you, Lard. If you look back at the day, what would you like the viewers to take away from it?

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Jan Willem. Well, I think it has been a great day, and I would like to thank everyone for tuning in. Thanks to the analysts for the interesting discussions during the Q&A sessions. Some very interesting feedback emerges from it, and that will make -- think about what we can do better. And this is all very helpful, so thank you very much.

So what I would like everybody to take away is that we are on a journey to transform Aegon. And we have taken some bold actions at the start of our journey, but the journey has just begun. We will continue to drive our transformation and increase our speed of execution. And we will do that in a rational way. We are excited about the future. We will transform Aegon, change the performance trajectory and create value for our customers and our shareholders.

And I would like to close off by thanking everybody who joined us today. I hope you will enjoy a well-deserved holiday break after an intense year. And I wish you all good health and the best of luck.