

A photograph of three business professionals sitting around a wooden table in a modern office setting. A woman with long dark hair is on the left, looking towards the center. A man with curly hair is in the middle, looking towards the right. A man with a mustache is on the right, looking down at a tablet device. The background shows a glass-walled office with other people and lights.

# Digitizing and diversifying

**Ingrid de Graaf**

Retail

December 1, 2017

*Helping people achieve a lifetime of financial security*

**AEGON**  
Transform Tomorrow

# Summary

## Optimizing portfolio

- Utilize competitive advantages to continue growing in Dutch mortgage market
- Actively managing run-off of life services book to maximize value
- Turned around loss-making Property & Casualty business

## Digitizing operations

- Create more opportunities for customer self-service to improve NPS and unlock efficiencies
- First insurance company to offer all of its products on one app for customers
- Enhance underwriting capabilities utilizing artificial intelligence and robotics

## Improving returns

- Leverage mortgage origination capabilities to produce high-yielding assets for own account
- Retain >50% of life services book customers, predominantly through bank savings products
- Improve P&C earnings through continued management actions to increase profitability

# Retail at a glance

## Highlights



**+28**  
Intermediary NPS  
Mortgages



**>95%**  
Digital interactions  
Mortgages



**EUR 28 million**  
New life sales  
~30% of Aegon NL



**EUR 4.4 billion**  
Asset mgmt inflows  
YTD annualized

## Key market positions



Mortgage originator



Term life provider

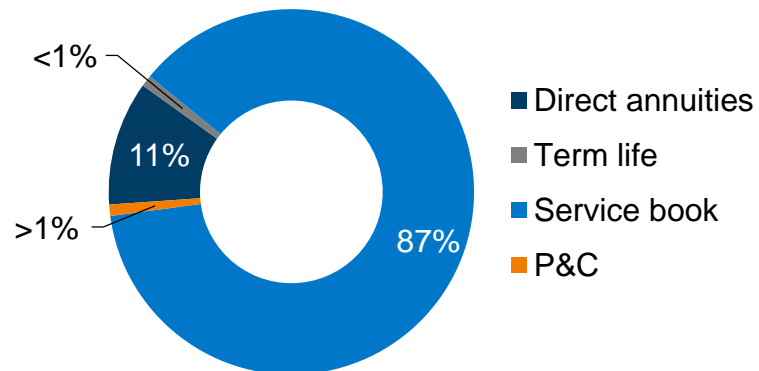


Individual life insurer

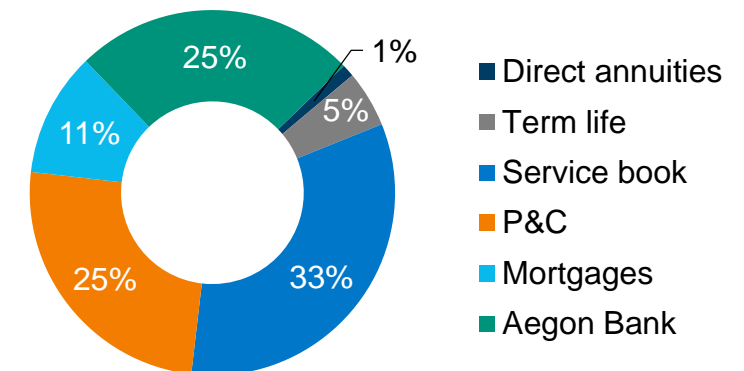


P&C insurer

## EUR 12 billion liabilities



## 1.6 million customers



Note: New life sales based on last four quarters. Asset management flows based on gross inflows generated for Dutch mortgage fund. Customer numbers based on unique customers and includes Aegon Bank customers served by Retail

# Optimizing the portfolio

## Fix / Reduce

Focusing on optimizing capital while managing risks to reduce volatility

- Defined benefit solutions
- **Life annuities**
- **Service book (unit-linked & traditional life)**

- Traditional DC
- **Commercial line non-life (sold)**
- **Onna-Onna (closed)**
- UMG (sold)

## Run

Improving returns and capital efficiency with selected new products

- (Bank) Savings
- Income protection (underwriting)
- Pension annuities

- **Property & Casualty**
- **Term life**

## Grow

Invest in via digital integration and distribution capabilities to grow fee-based businesses

- Alternative investments (3<sup>rd</sup> party)
- **Individual investment solutions**
- Knab
- **Mortgage origination**

- New-style DC (PPI)
- Pension and income protection services
- STAP (General Pension Fund)

New business Balances

~5%

~65%

~10%

~10%

~85%

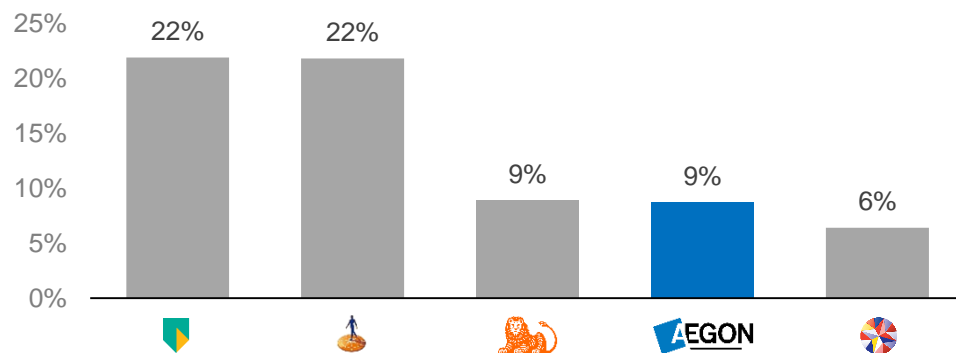
~25%

Note: New business including deposits related to Stap and Dutch Mortgage Fund recorded in Aegon Asset Management segment. Balances based on assets or liabilities depending on nature of the business

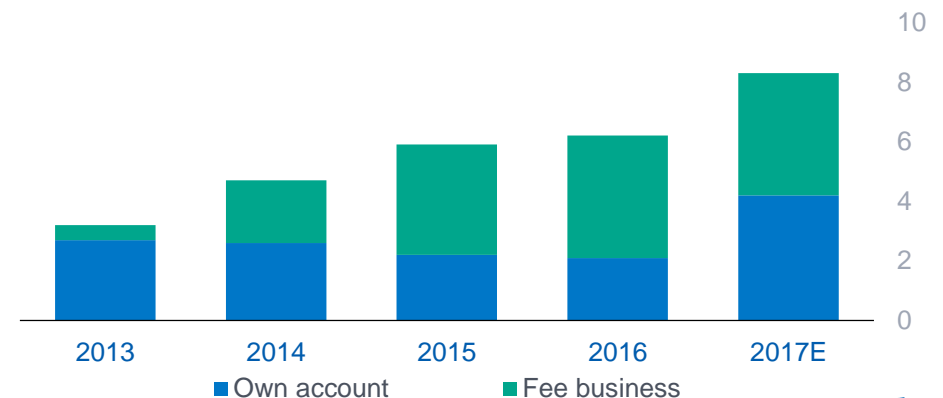
# Mortgages continue to be a growth opportunity

- Strong competitive advantage allowed Aegon to capture leading position in mortgage origination
  - Excellent position with independent financial advisors as a result of strong back and mid-office capabilities
  - Low cost structure enables effective price competition
  - Aegon is active in all maturities with a focus on 10 to 30-year fixed rate maturities
- Origination focuses on average income customers, leading to low loan losses
  - Average mortgage loan size of EUR 270,000 and ~20% of current production with NHG guarantee

## Mortgage origination market share (% of total, 9M 2017)



## Aegon's mortgage origination (In EUR billion)



Source: Dutch Land Registry

# Strong underwriting drives low impairments on mortgage book

- Foreclosure rate in Dutch market averaged ~5bps over the past 8 years
  - Full recourse on borrower leads to low loan losses for the industry
  - Aegon's impairments below industry average on the total mortgage book
- Underwriting process digitized, leading to efficient processes
  - 98% of applications are received digitally and 60% are processed within 24 hours
- Strict underwriting results in an average acceptance rate of 75% on applications
  - ~20% of applications declined immediately due to strict loan to income ratio requirements



< 4 bps

Average impairments  
Since 2012

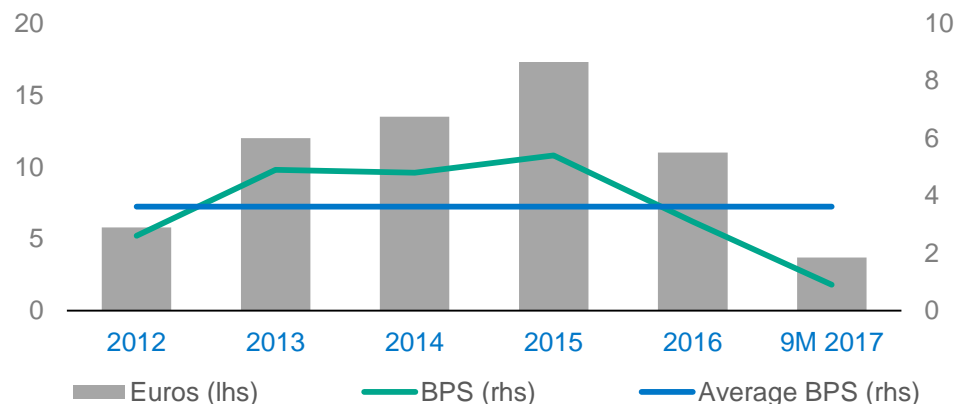


~57%

NHG guaranteed  
Portfolio per 3Q 2017

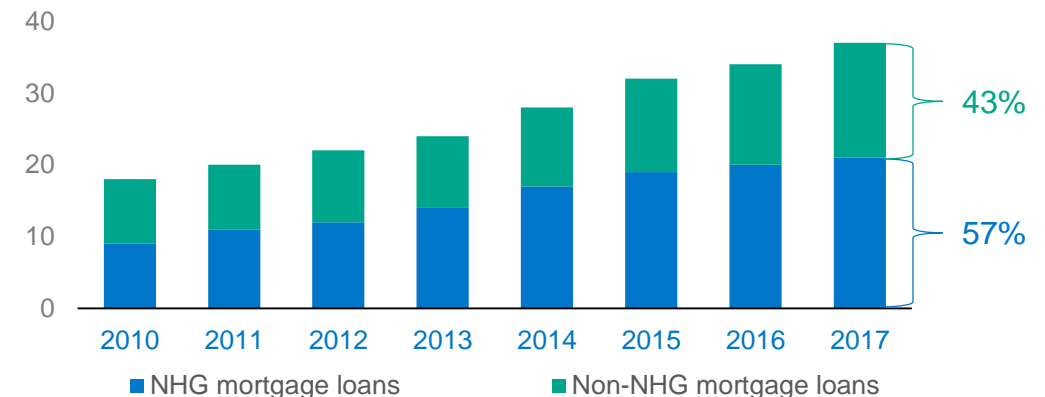
## Mortgage book impairments

(In EUR million, BPS)



## Majority of mortgages NHG guaranteed

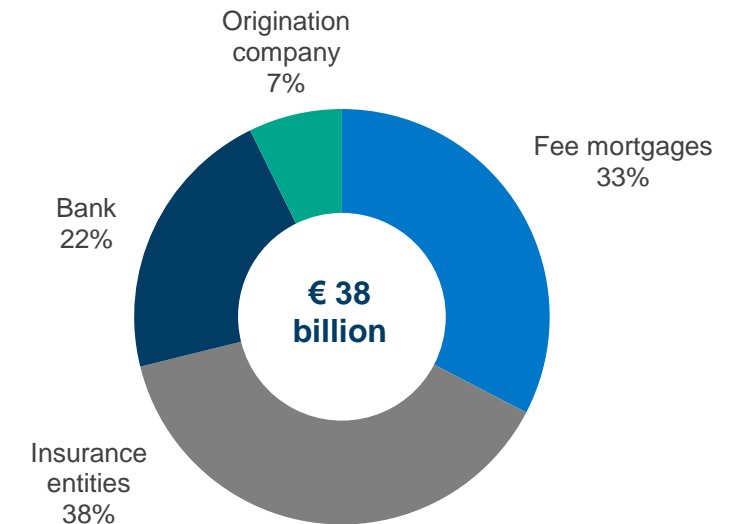
(In EUR billion)



# Mortgages offer attractive returns

- Mortgages contribute strongly to results for insurer and bank
  - Mortgage yield on insurance backbook is 430 bps<sup>1</sup>
  - Earnings growth of Aegon Bank supported by increased mortgage allocation
- Dutch Mortgage Fund benefits from strong third-party demand
  - Over EUR 4 billion annual production for DMF per year
  - Annual fee revenue of ~50 bps split with asset management
  - DMF balance of EUR 11 billion, strong pipeline
- Efficient processes drive economies of scale, resulting in stable expenses as mortgage book grows

## Split mortgage portfolio (In %)



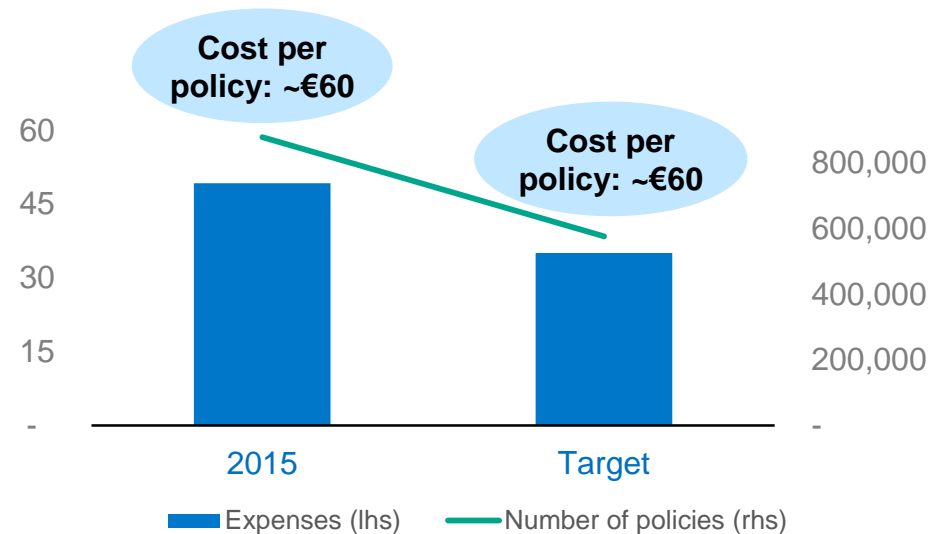
<sup>1</sup> Yield based on amortized costs IFRS balance sheet values. Excess spread on Solvency II basis lower due to higher value of mortgages

# Actively managing run-off of life service book

- Number of policies is expected to halve within seven years; Current size of the book is EUR 11 billion
- Digitization of the business enables Aegon to maintain service levels while reducing expenses
- Increased focus on retention leads to higher retention rates, particularly in bank savings products

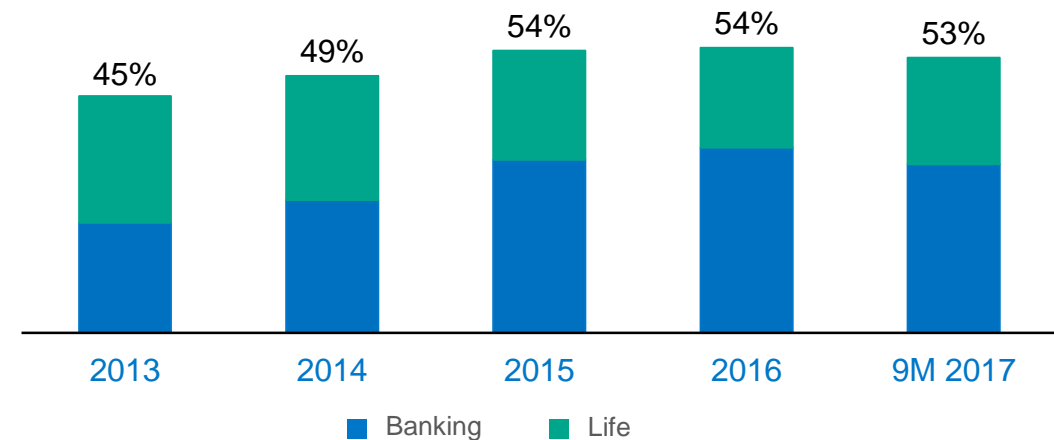
## Expense control in service book

(In EUR million, # customers)



## Retention rate on expiration

(By type of product, in %)





# Improved returns of property & casualty business

- Property & casualty business has been turned around through a margin over volume approach
- Retail P&C business offers opportunity to regularly interact with customers with high satisfaction levels



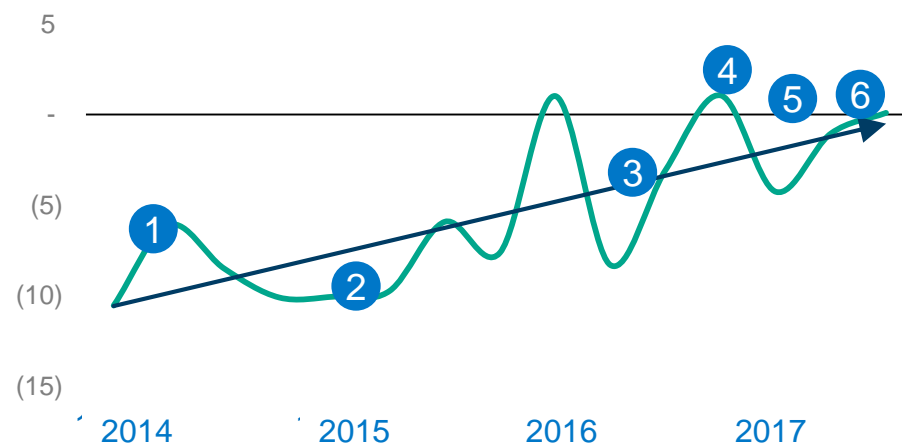
**5%-pts lower**  
Average claims ratio  
Compared to industry



**EUR 149 million**  
Gross written premiums  
9M 2017 annualized

## Successful turnaround P&C business

(Underlying earnings in EUR million)



- 1 Termination several proxy relationships
- 2 Decision to exit proxy channel business
- 3 Sale of proxy and co-insurance portfolios
- 4 Further stabilizing P&L through reinsurance with lower risk retention
- 5 Age limit for online car insurance increased from 26 to 31 years old
- 6 Wind-down of Onna-Onna label

# Digitization strategy focused on five key targets

## Partners



### Customer

has a personal "digital first" experience with Aegon in a simple self-service environment



### Advisor

is enthusiastic about Aegon's digital service



### Employee

The digital environment within Aegon is simple and efficient for employees

## Key targets



From human to digital service contacts



From supporting IFAs and customers with staff to supporting through self-service



From back-end focused operations to front-end focused operations optimized for digitization and self-service



From hardcopy to softcopy through portals and app



From mass-media to *targeted* digital media

Creates more opportunities for customer self-service to improve NPS and unlock efficiencies

# Digitization at the core of the retail organization



## Data lake

- First insurance company with all its products in one app
  - 36% of customers use My Aegon
- >55% increase in self service
- Improvements made to intermediary portal lead to increased satisfaction levels
- Increased focus on Chat with very high NPS of +35%



## Data analytics

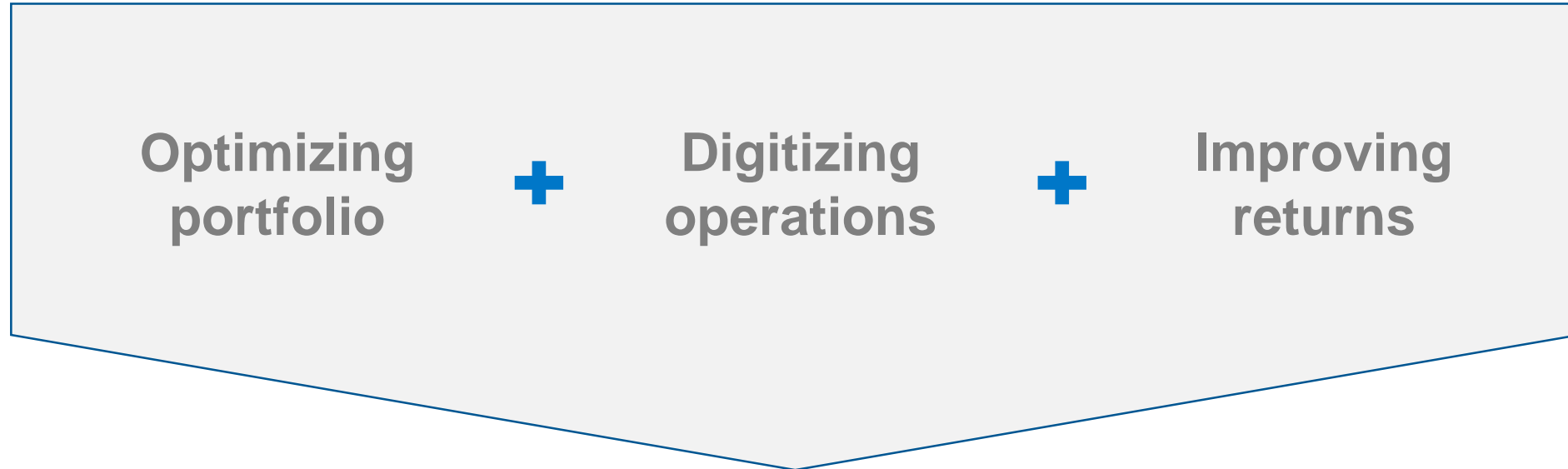
- Broker segmentation enables targeted marketing which drives higher margins
- Commercial pricing quadrupled market share term life
- Machine learning to identify suspicious claims/fraud
- Process analytics to reduce cost and increase NPS



## Cognitive robotics

- Robotics lead to significant shortening of processing times and reduce errors
- Improvement of customer engagements and satisfaction
- Implementation is expected to result in expense savings within the next three years

# Conclusion



**Well positioned for the future**

**For questions please contact  
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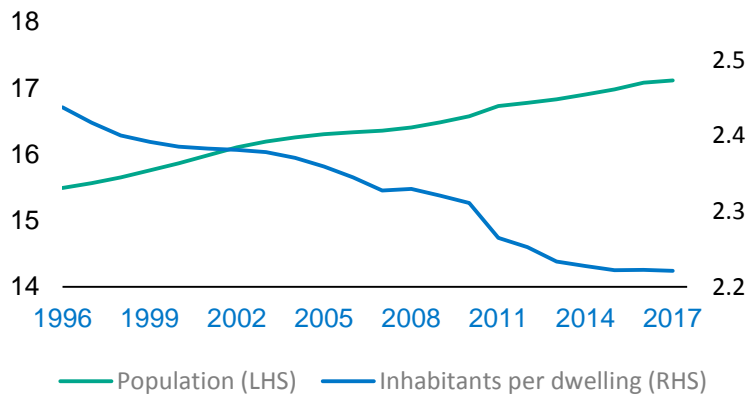
P.O. Box 85  
2501 CB The Hague  
The Netherlands



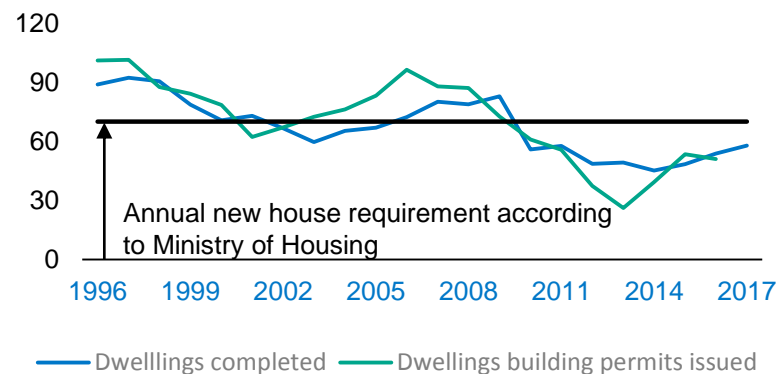
# Market dynamics support housing market

- Supply in the Dutch housing market is relatively inelastic due to limited land availability and planning permissions
- At least 70,000 new homes required annually to meet increased housing demand and growing population
  - Number of new homes completed in 2017 expected to be lowest level since 1953
- Housing prices recovered from 2012 lows to pre-2010 levels as reduction in inhabitants per dwelling, attractive interest rates and economic growth lead to increasing demand
  - Mortgage market expected to grow by on average 20% per year to EUR ~170 billion by 2020

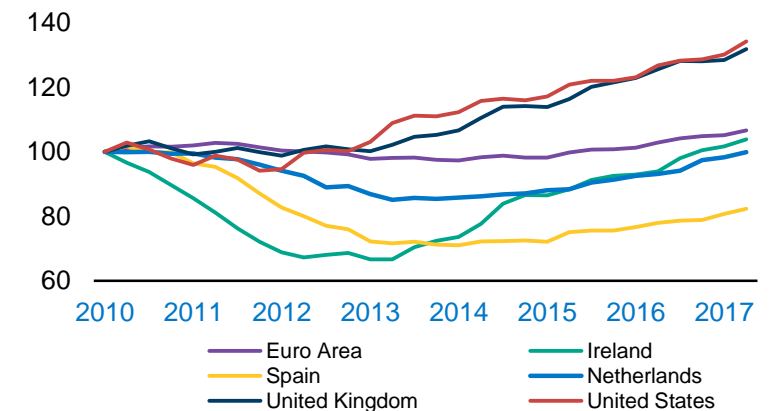
**Dutch population vs occupants**  
(Population in millions, inhabitants)



**New housing requirements**  
(Homes in thousands)



**House price developments**  
(Rebased to 100%)



Source: CBS, Ministry of Housing, ABF Research, Eurostat, S&P Case Schiller

# Disclaimer

## Cautionary note regarding non-IFRS measures

This document includes the following non-IFRS-EU financial measures: underlying earnings before tax, income tax, income before tax, market consistent value of new business and return on equity. These non-IFRS-EU measures are calculated by consolidating on a proportionate basis Aegon's joint ventures and associated companies. The reconciliation of these measures, except for market consistent value of new business, to the most comparable IFRS-EU measure is provided in note 3 'Segment information' of Aegon's Condensed Consolidated Interim Financial Statements. Market consistent value of new business is not based on IFRS-EU, which are used to report Aegon's primary financial statements and should not be viewed as a substitute for IFRS-EU financial measures. Aegon may define and calculate market consistent value of new business differently than other companies. Return on equity is a ratio using a non-IFRS-EU measure and is calculated by dividing the net underlying earnings after cost of leverage by the average shareholders' equity, the revaluation reserve and the reserves related to defined benefit plans. Aegon believes that these non-IFRS-EU measures, together with the IFRS-EU information, provide meaningful supplemental information about the underlying operating results of Aegon's business including insight into the financial measures that senior management uses in managing the business.

## Local currencies and constant currency exchange rates

This document contains certain information about Aegon's results, financial condition and revenue generating investments presented in USD for the Americas and Asia, and in GBP for the United Kingdom, because those businesses operate and are managed primarily in those currencies. Certain comparative information presented on a constant currency basis eliminates the effects of changes in currency exchange rates. None of this information is a substitute for or superior to financial information about Aegon presented in EUR, which is the currency of Aegon's primary financial statements.

## Forward-looking statements

The statements contained in this document that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. The following are words that identify such forward-looking statements: aim, believe, estimate, target, intend, may, expect, anticipate, predict, project, counting on, plan, continue, want, forecast, goal, should, would, is confident, will, and similar expressions as they relate to Aegon. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Aegon undertakes no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which merely reflect company expectations at the time of writing. Actual results may differ materially from expectations conveyed in forward-looking statements due to changes caused by various risks and uncertainties. Such risks and uncertainties include but are not limited to the following:

- Changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom;
- Changes in the performance of financial markets, including emerging markets, such as with regard to:
  - The frequency and severity of defaults by issuers in Aegon's fixed income investment portfolios;
  - The effects of corporate bankruptcies and/or accounting restatements on the financial markets and the resulting decline in the value of equity and debt securities Aegon holds; and
  - The effects of declining creditworthiness of certain public sector securities and the resulting decline in the value of government exposure that Aegon holds;
- Changes in the performance of Aegon's investment portfolio and decline in ratings of Aegon's counterparties;
- Consequences of a potential (partial) break-up of the euro;
- Consequences of the anticipated exit of the United Kingdom from the European Union;
- The frequency and severity of insured loss events;
- Changes affecting longevity, mortality, morbidity, persistence and other factors that may impact the profitability of Aegon's insurance products;
- Reinsurers to whom Aegon has ceded significant underwriting risks may fail to meet their obligations;
- Changes affecting interest rate levels and continuing low or rapidly changing interest rate levels;
- Changes affecting currency exchange rates, in particular the EUR/USD and EUR/GBP exchange rates;
- Changes in the availability of, and costs associated with, liquidity sources such as bank and capital markets funding, as well as conditions in the credit markets in general such as changes in borrower and counterparty creditworthiness;
- Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets;
- Changes in laws and regulations, particularly those affecting Aegon's operations' ability to hire and retain key personnel, taxation of Aegon companies, the products Aegon sells, and the attractiveness of certain products to its consumers;
- Regulatory changes relating to the pensions, investment, and insurance industries in the jurisdictions in which Aegon operates;
- Standard setting initiatives of supranational standard setting bodies such as the Financial Stability Board and the International Association of Insurance Supervisors or changes to such standards that may have an impact on regional (such as EU), national or US federal or state level financial regulation or the application thereof to Aegon, including the designation of Aegon by the Financial Stability Board as a Global Systemically Important Insurer (G-SII);
- Changes in customer behavior and public opinion in general related to, among other things, the type of products Aegon sells, including legal, regulatory or commercial necessity to meet changing customer expectations;
- Acts of God, acts of terrorism, acts of war and pandemics;
- Changes in the policies of central banks and/or governments;
- Lowering of one or more of Aegon's debt ratings issued by recognized rating organizations and the adverse impact such action may have on Aegon's ability to raise capital and on its liquidity and financial condition;
- Lowering of one or more of insurer financial strength ratings of Aegon's insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability and liquidity of its insurance subsidiaries;
- The effect of the European Union's Solvency II requirements and other regulations in other jurisdictions affecting the capital Aegon is required to maintain;
- Litigation or regulatory action that could require Aegon to pay significant damages or change the way Aegon does business;
- As Aegon's operations support complex transactions and are highly dependent on the proper functioning of information technology, a computer system failure or security breach may disrupt Aegon's business, damage its reputation and adversely affect its results of operations, financial condition and cash flows;
- Customer responsiveness to both new products and distribution channels;
- Competitive, legal, regulatory, or tax changes that affect profitability, the distribution cost of or demand for Aegon's products;
- Changes in accounting regulations and policies or a change by Aegon in applying such regulations and policies, voluntarily or otherwise, which may affect Aegon's reported results and shareholders' equity;
- Aegon's projected results are highly sensitive to complex mathematical models of financial markets, mortality, longevity, and other dynamic systems subject to shocks and unpredictable volatility. Should assumptions to these models later prove incorrect, or should errors in those models escape the controls in place to detect them, future performance will vary from projected results;
- The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including Aegon's ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;
- Catastrophic events, either manmade or by nature, could result in material losses and significantly interrupt Aegon's business;
- Aegon's failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving and excess capital and leverage ratio management initiatives; and
- This press release contains information that qualifies, or may qualify, as inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

Further details of potential risks and uncertainties affecting Aegon are described in its filings with the Netherlands Authority for the Financial Markets and the US Securities and Exchange Commission, including the Annual Report. These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, Aegon expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Aegon's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.