

# Individual Savings & Retirement



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**Tom Swank**

CEO

**David Hopewell**

CFO



# Key messages

- Variable annuities and mutual funds are big markets with significant opportunities
- Transamerica is capturing those opportunities
  - ▶ Sales growth via diversified distribution, differentiated service and product innovation
  - ▶ Margin expansion efforts with product pricing, back book portfolio management, and operational excellence
  - ▶ Continuing the shift from spread to fee-based earnings



# Significant market opportunities

- Growing and aging population with increased need for accumulation and retirement products
  - ▶ US population of 307 million
  - ▶ 78 million baby boomers heading to retirement
  - ▶ Market volatility increases probability of wealth destruction at the wrong time – retirement
  - ▶ Reduction in defined benefit plans
  - ▶ Questions about Social Security
- Carriers leaving VA market due to lack of scale and technical requirements
- Small proprietary fund complexes pressured by volatile capital markets

## Variable annuities

Large, highly competitive environment - \$158 billion annual sales in 2011 and expected to be \$135 billion in 2012

Sales are very concentrated in the top 3 providers – over 40%

Market challenged by low interest rates and volatility – changing competition

Transamerica ranked #6 in our traditional channels and #8 in variable annuities overall

## Retail mutual funds

Large, highly competitive market space – \$428 billion in gross sales and \$228 billion in net sales in 2011

Key competitors are primarily proprietary fund shops

Transamerica is the 53rd largest mutual fund complex by AUM

# Positioned to capitalize on significant market opportunities

	<b>Annuities – variable and fixed</b> Wealth accumulation, preservation and retirement income	<b>Retail mutual funds</b> Wealth accumulation and asset allocation
<b>Overview</b>	<ul style="list-style-type: none"><li>Variable annuities:<ul style="list-style-type: none"><li>Dedicated wholesaling team</li><li>Fee-based earnings retain some capital markets leverage post-hedging</li></ul></li><li>Fixed annuities (<i>business is de-emphasized</i>):<ul style="list-style-type: none"><li>Profitability managed over time through rate setting</li><li>Back book management through select reinsurance transactions</li></ul></li></ul>	<ul style="list-style-type: none"><li>Dedicated wholesaling team and award winning shareholder servicing</li><li>Fee-based earnings with low required capital</li></ul>
<b>Distribution</b>	<ul style="list-style-type: none"><li>Transamerica Capital Management (TCM)<ul style="list-style-type: none"><li>Manufactures variable and fixed annuities</li><li>Distributes variable and fixed annuities</li></ul></li><li>Focused on third-party distribution (advisors)</li></ul>	<ul style="list-style-type: none"><li>Transamerica Asset Management (TAM)<ul style="list-style-type: none"><li>Investment advisor to all AEGON USA mutual funds</li><li>Manufactures mutual funds</li><li>Provides asset allocation</li><li>Offers a continuum of asset allocation and partner funds/asset management – effectively a “manager of managers”</li></ul></li><li>Focused on third party distribution (advisors)</li></ul>
<b>Competitive advantages</b>	<ul style="list-style-type: none"><li>Highly recognized brand – Transamerica</li><li>Distribution capabilities</li><li>Customer service</li><li>Execution</li><li>Low maintenance costs</li><li>Innovative approach: speed to market, pricing discipline and back book management</li></ul>	<ul style="list-style-type: none"><li>Open architecture - focus on “Best in Class”</li><li>Manager research and selection capabilities</li><li>Diversified channels with strong wholesaling distribution</li><li>Highly recognized brands - Transamerica and Morningstar</li><li>Customer service focus - 9 consecutive DALBAR awards</li></ul>

# Implementing strategic initiatives



## Mission

- As part of securing financial futures, we help people accumulate and protect wealth and then convert that wealth into income solutions at retirement
  - ▶ Growth in traditional channels, as well as new channels for scale and diversification
  - ▶ Improving operating efficiencies
  - ▶ Leveraging technology to improve customer service
  - ▶ Proactively managing our portfolio
  - ▶ Engaging employees

## Goal

- We will become a leader in our chosen markets



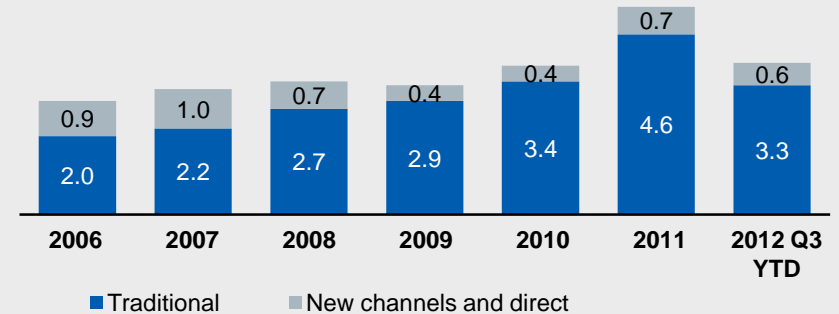
# Sustaining growth while outpacing the industry

## Growth in traditional and new distribution channels

- Increasing market penetration through strong, high-caliber wholesaling force
- Adding new distribution for scale / diversity
  - ▶ Increasing private label production channels that do not conflict with existing customers, e.g. Vanguard, CUNA, TD Ameritrade
    - Private label products adhere to Transamerica's pricing requirements
  - ▶ Testing new markets – 401(k) and ARIA
- Innovative approach
  - ▶ Speed to market repricing
  - ▶ First to market with:
    - Tiered pricing by fund risk level
    - Volatility adjusted funds

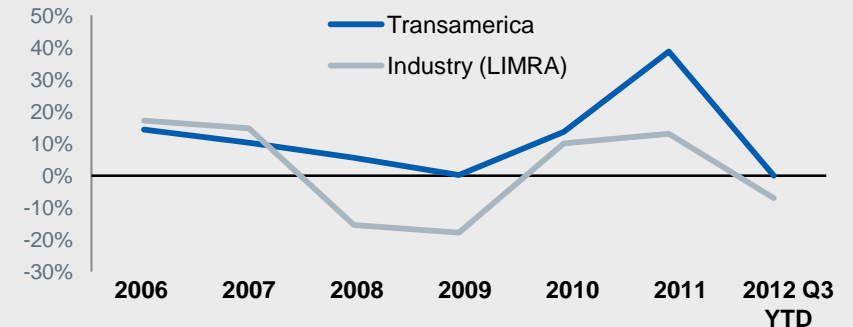
## Transamerica variable annuity sales

(USD billion)



## Variable annuity sales

(Annual percentage growth)



# Growing profitable sales while being responsive to economic conditions

## Market environment



## IS&R management actions

- VA repricing - increased fees, product enhancement
- ▲ VA and MF product innovation (introduced volatility adjusted funds, tiered pricing by equity level, tactical income fund and alternative strategies retail funds)

***Strong risk and asset liability management***

# Delivering in retail mutual funds

- Diversified channels with strong wholesaling distribution
  - ▶ Increasing number of advisors selling both VAs and retail mutual funds
- Expanded internal asset allocation capabilities
- Introduction of “Best in Class” unique retail sub-advised mutual funds
- Over 60% of gross deposits through Q3 2012 were made to internally managed funds

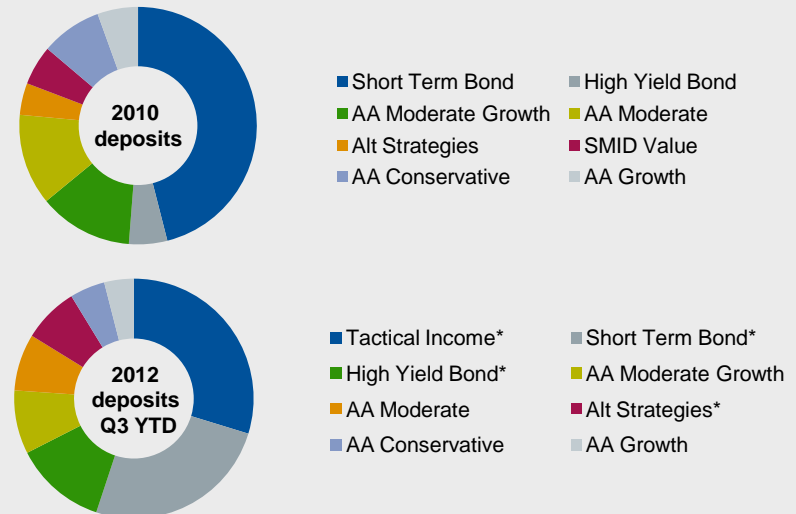
## Positive sales momentum

**Transamerica mutual fund deposits**  
(USD billion)



## More diversified product mix

**Mutual fund asset mix**



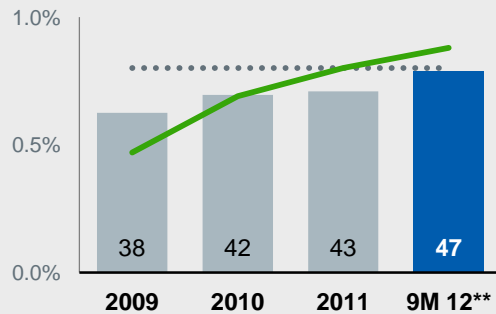


# Margin expansion in fee based business

- Primary drivers of margin expansion
  - ▶ New product pricing
  - ▶ Back book solutions
  - ▶ Operational excellence
- ROA targets unchanged

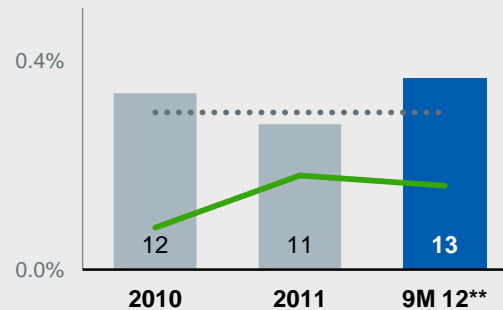
## Variable annuity balances and margin\*

(%, USD billion)



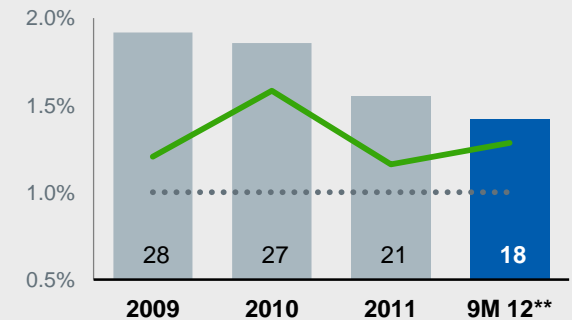
## Retail mutual fund balances and margin

(%, USD billion)



## Fixed annuity balances and margin

(%, USD billion)



- Margin (UEBT\*\* / Assets)
- Targeted margin

\* Variable annuities margin adjusted for one-offs

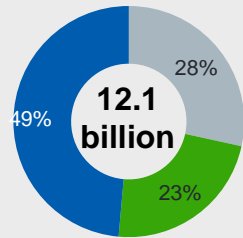
\*\* 9M 2012 earnings annualized

# Delivering on commitments

- Solid results as VA and mutual fund earnings replace fixed annuities

## Gross deposits FY 2008

(USD billion)

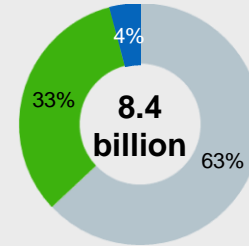


*Growing fee business* →

- Variable annuities
- Retail mutual funds
- Fixed annuities

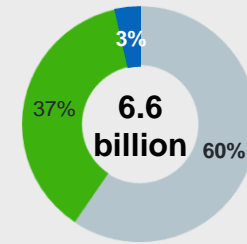
## Gross deposits FY 2011

(USD billion)



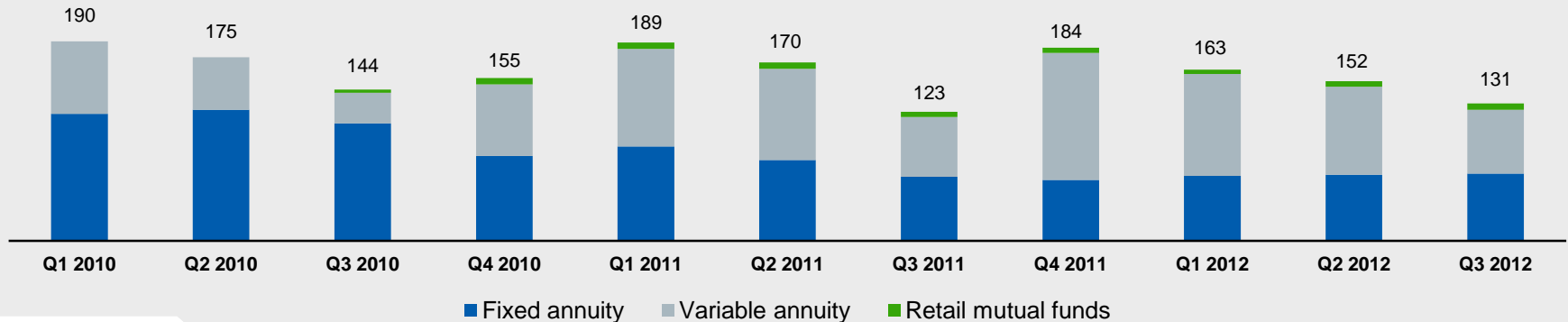
## Gross deposits 2012 Q3 YTD

(USD billion)



## Underlying earnings before tax

(USD million)

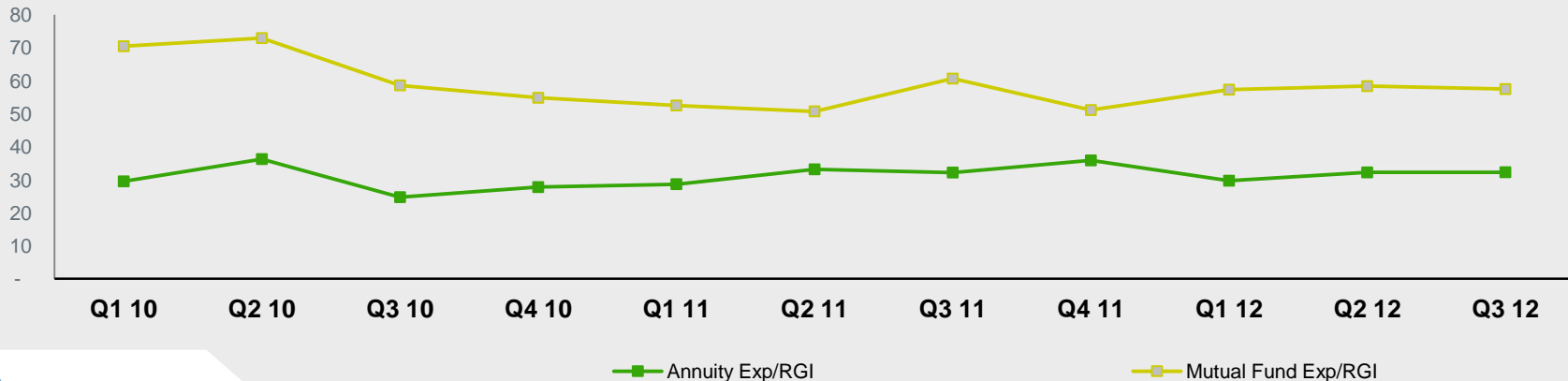


# Maintaining expense efficiency as variable annuity replaces fixed annuity

- Maintain low-cost position in annuity industry through targeted customer-facing and back-office efficiency
- Continued focus on mutual fund operating efficiency
- Outsourcing commoditized functions to improve service
- Improving customer service to distributors by
  - ▶ Segmenting service proposition
  - ▶ Instituting loyalty programs

## Operating expense efficiency

(basis points)

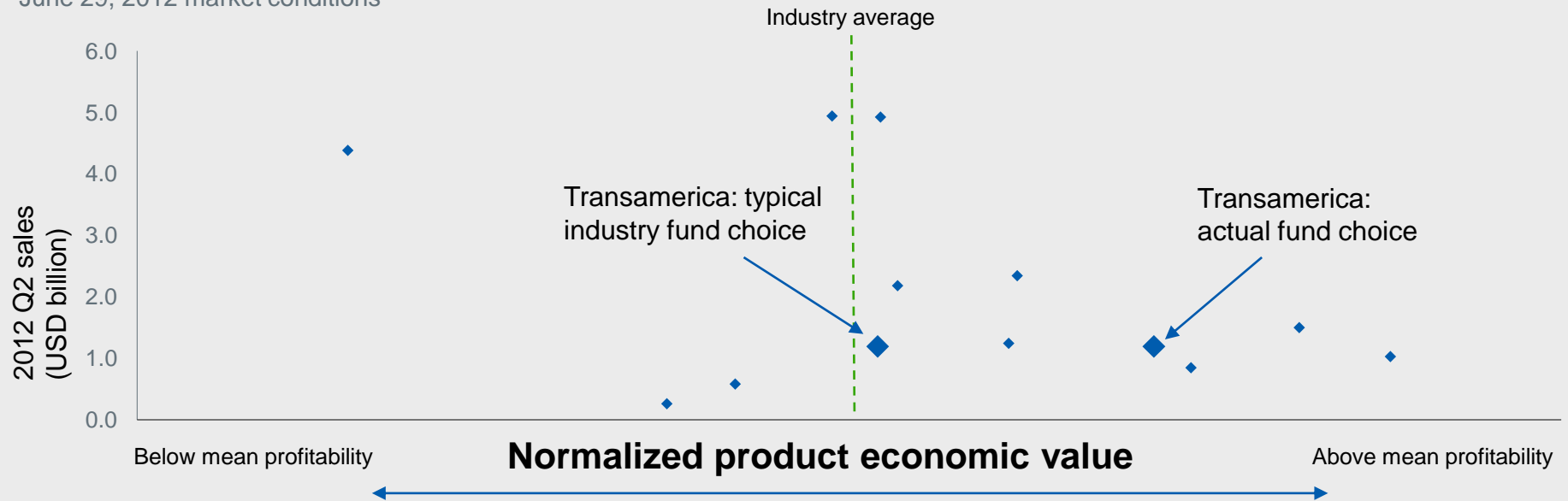


# Attracting customers Transamerica can serve profitably

- Innovative tiered equity pricing attracts customers to lower risk fund offerings and improves expected margin

## Oliver Wyman VA Service Bureau

June 29, 2012 market conditions



1. Non-Transamerica figures assume 25% of policyholders elect maximum level of equity risk in underlying sub-accounts, 70% elect moderate risk, and 5% elect a conservative portfolio; cells weighted based on issue-age and utilization. Source LIMRA.
2. Figures reflect B-share results; assumes 8.5% up-front commission and acquisition expense, no trail commissions, maintenance expense of \$50 + 7bps of assets p.a.

# Sustainable pricing in today's market

## AEGON - Transamerica

Variable Annuity Market Consistent Pricing results  
(Landmark contract, RIC1.6 rider, 9/30/12 market conditions)

Revenues based on account value	
Mortality and expense fees	1.30%
Fund management revenue	0.62%
Living benefit fees	1.84%
Other revenue (surrender charges, policy fees)	0.07%
<b>Total revenue</b>	<b>3.83%</b>
Benefits and disbursements on account value	
Death benefits	0.25%
Living benefit claims & hedge cost	1.49%
General expenses	0.39%
Distribution costs	1.27%
<b>Total benefits and disbursements</b>	<b>3.40%</b>
Product profit margin	0.43%
Return from capital	0.05%
<b>Priced for market consistent ROA</b>	<b>0.48%</b>
<b>Rollforward from market consistent pricing to IFRS ROA</b>	
Acquisition cost (best estimate market returns)	0.22%
Lower realized volatility hedge cost (hedge shorter on volatility term structure)	0.10%
Beat the expense bogey	0.04%
<b>Expected IFRS ROA</b>	<b>0.84%</b>

Revenue matched to  
product cost and risk profile  
+  
Guarantee costs reflecting  
current conditions  
=  
Ongoing strong ROA  
and  
Sustainable pricing

*New sales sustain inforce margins*

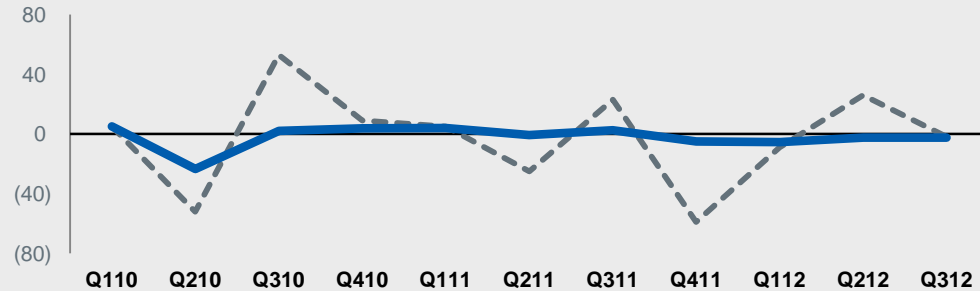
# Prudent risk management of variable annuity in-force book

- Current product features and pricing offer highest returns
- Alternative solutions and macro hedging for pre-2004 GMIB book

	Pre 2004	2004 – 2007	2008 – current
<b>Characteristics</b>	<ul style="list-style-type: none"> <li>▪ High capital requirement</li> <li>▪ Low returns on GMIB</li> <li>▪ Challenging market path</li> <li>▪ Rider fee &lt; hedge costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lower capital requirements</li> <li>▪ Moderate expected return at issue</li> <li>▪ Rider fee = hedge costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lowest capital requirements</li> <li>▪ Highest return expected at issue</li> <li>▪ Rider fee &gt; hedge costs</li> </ul>
<b>Management objective</b>	<ul style="list-style-type: none"> <li>▪ Reduce market risk, improve certainty of IB claims</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase revenue, reduce market risks</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase sales, maintain margins</li> </ul>
<b>Hedging</b>	<ul style="list-style-type: none"> <li>▪ Equity, some rates, capital protection target</li> </ul>	<ul style="list-style-type: none"> <li>▪ Equity, realized equity volatility, interest rates</li> <li>▪ Income volatility reduction focus</li> </ul>	<ul style="list-style-type: none"> <li>▪ Equity, realized equity volatility, interest rates</li> <li>▪ Income volatility reduction focus</li> </ul>
<b>Other risk control</b>	<ul style="list-style-type: none"> <li>▪ Asset allocation funds with volatility adjustment, fund clean up</li> </ul>	<ul style="list-style-type: none"> <li>▪ Asset allocation funds with volatility adjustment, fund clean up</li> <li>▪ Tight control on basis risks</li> </ul>	<ul style="list-style-type: none"> <li>▪ Asset allocation funds with volatility adjustment are the primary offerings</li> <li>▪ Fast re-pricing</li> </ul>
<b>Management actions</b>	<ul style="list-style-type: none"> <li>▪ Alternative settlement option offered</li> </ul>	<ul style="list-style-type: none"> <li>▪ Focus on retention</li> <li>▪ Right to increase fee with step up</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tightly integrate sales proposition, product, fund, and hedging</li> <li>▪ Cultivate markets with lower price competition</li> <li>▪ Right to increase fee at step up</li> </ul>

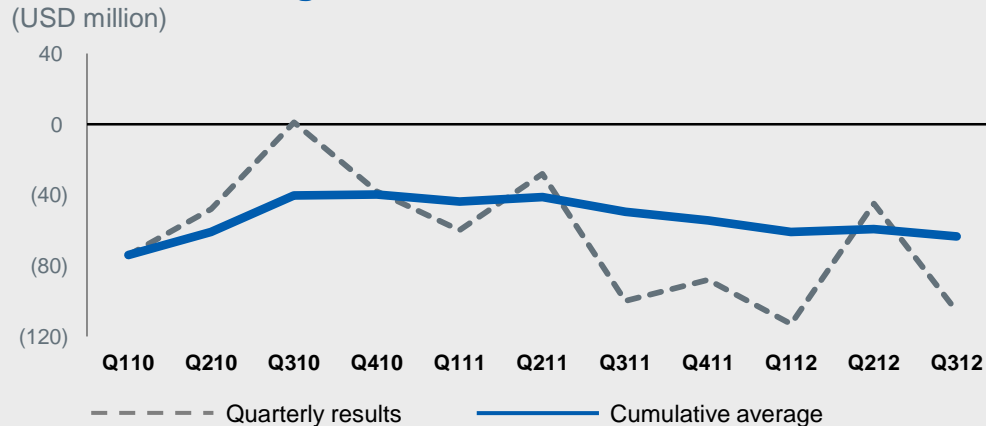
# VA hedge results meeting expectations

## IFRS fair value results\* (excluding macro hedge results) (USD million)



- Fair Value results expected to be near zero over time
- Quarterly volatility due to:
  - IFRS sensitivity to equity and rates is lower than hedge target
  - Some long term volatility not hedged
- Most quarterly volatility due to timing issues that offset over time

## IFRS macro hedge results\* (USD million)



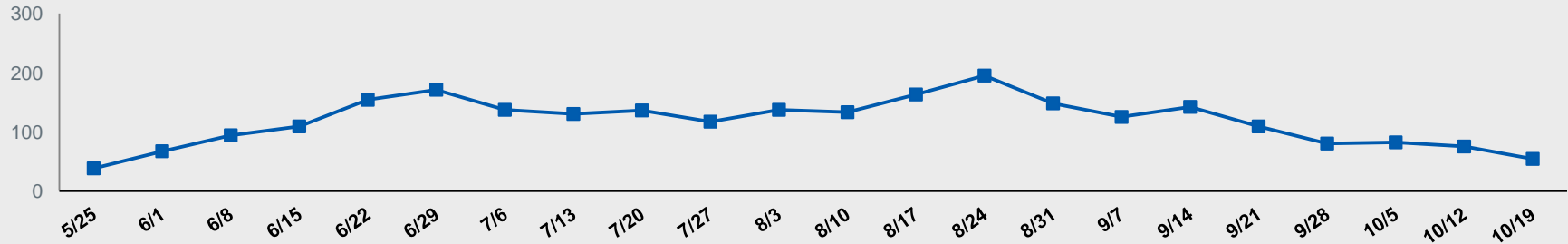
- IFRS macro hedge quarterly results expected to be USD (60) million at beginning of period and USD (70) million at end
- Hedge increase in Q311 drives change in expected results
- Future expected results depends on current hedge size and reserve assumptions
- Quarterly volatility primarily due to reserve sensitivity lower than hedge – book value type reserve in a generally higher market

# GMIB in-force management program – ALSO

- Alternative Lump Sum Offer (ALSO) program
  - ▶ Enhanced offer to GMIB policyholders upon policy surrender
  - ▶ Enhanced offer: 80% of the GMIB guarantee base
- 1st round of policyholder notifications complete
- Results through Q3 2012
  - ▶ Over USD 270 million of total payments, including account value
  - ▶ 12% of initially eligible policyholders have taken the offer – in line with expectations
  - ▶ Negligible impact to IFRS earnings
  - ▶ Some economic risk relief

## Weekly ALSO transactions

(number of contracts)





# Why Transamerica wins



- Innovative products and solutions
- Solid presence in our traditional channels
- Expanded opportunities with non-traditional channels
- Increased margins driven by prudent new business pricing, management of the back book and operational excellence





Transform Tomorrow

**For questions please contact Investor Relations**

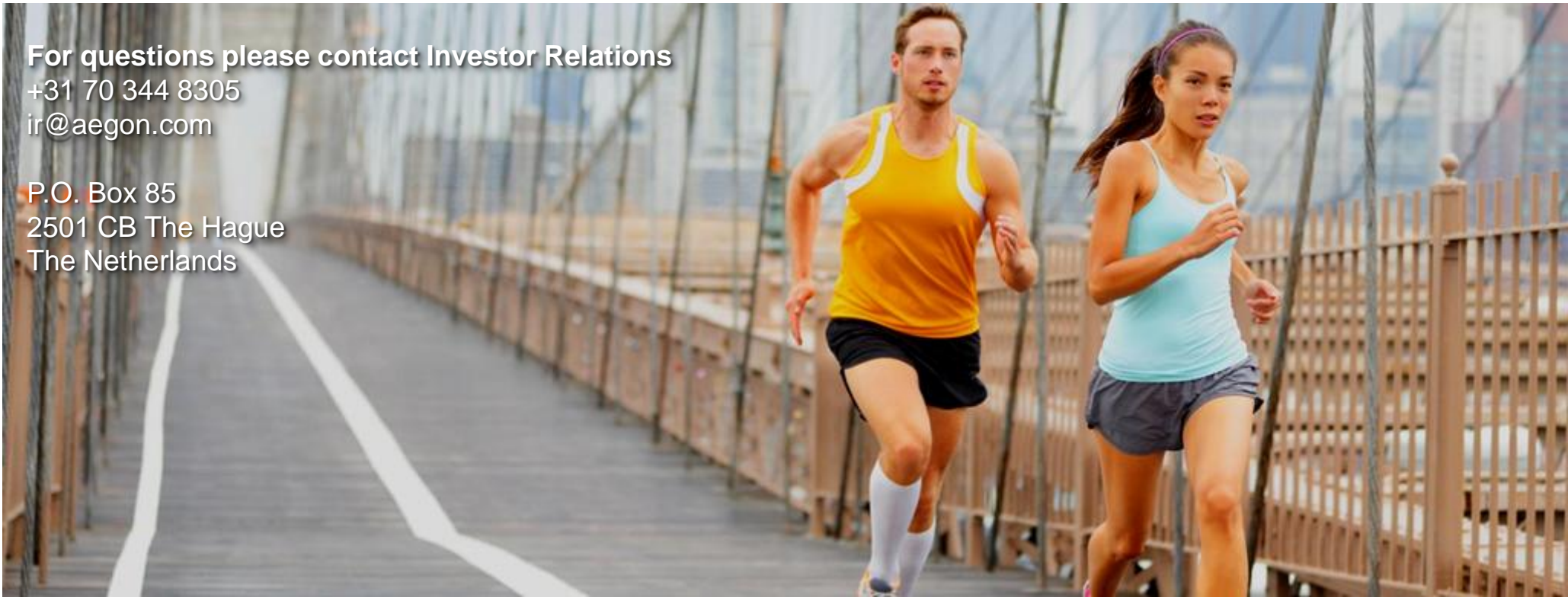
+31 70 344 8305

[ir@aegon.com](mailto:ir@aegon.com)

P.O. Box 85

2501 CB The Hague

The Netherlands



# Disclaimer

## Cautionary note regarding non-GAAP measures

This document includes a non-GAAP financial measure: underlying earnings before tax. The reconciliation of underlying earnings before tax to the most comparable IFRS measure is provided in Note 3 "Segment information" of Aegon's Condensed consolidated interim financial statements.

## Local currencies and constant currency exchange rates

This document contains certain information about Aegon's results and financial condition in USD for the Americas and 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 us 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; and
  - 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;
  - The effects of declining creditworthiness of certain private sector securities and the resulting decline in the value of sovereign exposure that Aegon holds;
- Changes in the performance of Aegon's investment portfolio and decline in ratings of the company's counterparties;
- Consequences of a potential (partial) break-up of the euro;
- The frequency and severity of insured loss events;
- Changes affecting 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, the products the company sells, and the attractiveness of certain products to its consumers;
- Changes in the policies of central banks and/or governments,;
- Regulatory changes relating to the insurance industry in the jurisdictions in which Aegon operates;
- Changes in customer behavior and public opinion in general related to, among other things, the type of products also Aegon sells, including legal, regulatory or commercial necessity to meet changing customer expectations;
- Acts of God, acts of terrorism, acts of war and pandemics;
- Lowering of one or more of Aegon's debt ratings issued by recognized rating organizations and the adverse impact such action may have on the company'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 of its insurance subsidiaries and liquidity;
- 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 the company 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 the company'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 may affect Aegon's reported results and shareholder's equity;
- 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; and
- Aegon's failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving initiatives.

Further details of potential risks and uncertainties affecting the company are described in the company's filings with NYSE Euronext Amsterdam 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, the company 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 the company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.