Integrated capital & risk management

Jos Streppel
CFO
Michiel van Katwijk
Executive Vice President and Group Treasurer

Key messages

Capital position
- Strong capital position and financial flexibility despite market turmoil
- Currency exposure related to capital is well managed
- Cash flows remain strong

Capital efficiency
- Significant scope to improve capital productivity
- Actively de-risking the balance sheet

Integrated capital & risk management
- Strategic balance sheet management
- Local risk management in a global framework
Composition of capital well within leverage tolerances

Composition of capital
(EUR billion)

* Perpetual capital securities are adjusted to reflect economic value after currency revaluations

* Capital leverage
* Perpetual capital securities
* Shareholders’ equity excluding revaluation reserve
Currency movements do not affect debt/capital ratios

- Shareholders’ equity fluctuates with currency exchange rates since equity supports local solvency capital. Capital leverage (including capital securities) pro-rated in currencies relative to capital in units.

Capital in units | Capital funding
---|---
USD |  
EUR |  
GBP |  
CAD |  
Capital leverage (incl. perpetuals)  
Shareholders’ equity
Excess capital reduced by share buyback and investments

Excess Capital
(EUR billion)

Financial Flexibility
(EUR billion)

- United States
- Netherlands
- United Kingdom
- Other countries
- Leverage capacity

- United States
- Netherlands
- United Kingdom
- Other countries
- Leverage capacity
Capitalization and capital distribution policy

- Country units are capitalized at the higher of:
  - Regulatory requirements
  - S&P requirements at AA level (165%) and
  - Economic requirements under AEGON’s economic framework [after full implementation by 2009]
- Capital in excess of required level is paid as dividend to AEGON NV
- AEGON holds excess capital partly in cash, partly in flexibility to issue qualifying instruments

Dividend policy

- Dividend determined by capital position and cash flows
- AEGON will repurchase stock issued as dividend if its capital position and its cash flows allow for full cash distributions
- AEGON will repurchase additional common stock if investment opportunities do not allow for effective capital deployment within a reasonable time frame
Solid cash flows support strong capital position and dividend

<table>
<thead>
<tr>
<th>Cash flows at holding level (EUR million)</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repatriations from country units</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td>1,533</td>
<td>1,953</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,000</td>
<td>850</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>95</td>
<td>155</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>26</td>
<td>71</td>
</tr>
<tr>
<td><strong>Distributions received from units</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding expense</td>
<td>(358)</td>
<td>(320)</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>(641)</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Common shares repurchased</td>
<td>-</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>(268)</td>
<td>(36 )</td>
</tr>
<tr>
<td>Other</td>
<td>(222)</td>
<td>(201)</td>
</tr>
<tr>
<td><strong>Cash outflow holding</strong></td>
<td>(1,489)</td>
<td>(2,557)</td>
</tr>
<tr>
<td><strong>Operating cash flow</strong></td>
<td>1,165</td>
<td>472</td>
</tr>
<tr>
<td>Investment in country units</td>
<td>(436)</td>
<td>(389)</td>
</tr>
<tr>
<td>Acquisitions &amp; Divestures</td>
<td>(372)</td>
<td>(1,316)</td>
</tr>
</tbody>
</table>
Improve capital efficiency

- Optimize capital structure
  - Implement more
    - Capital releases from back books
    - Reinsurance
    - Insurance linked securities

- Reduce capital intensity
  - Further reduce
    - Equity risk
    - Interest rate risk

- Maximize diversification benefits
  - Manage portfolio of risks
  - Reset retention limits
  - Build global risk pooling infrastructure
Room to improve capital productivity

Unlevered return on capital 2007¹

1. Net underlying earnings / average capital in units excluding revaluation reserves
2. Average capital in units excludes revaluation reserves, holding activities and unallocated Group capital

Local knowledge. Global power.
## Implications for capital productivity

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2010</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unlevered return on capital</strong>(^1),(^2) (RoC)</td>
<td>9.6%</td>
<td>&gt;11%</td>
<td>&gt;12%</td>
</tr>
<tr>
<td><strong>Holding and leverage effects</strong></td>
<td>2.4%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Return on equity</strong>(^2),(^3) (RoE)</td>
<td>12.0%</td>
<td>&gt;14%</td>
<td>&gt;15%</td>
</tr>
</tbody>
</table>

### Unlevered return on capital (RoC) 2007

<table>
<thead>
<tr>
<th>Region</th>
<th>Return on Capital (RoC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>10.6%</td>
</tr>
<tr>
<td>The Netherlands(^1)</td>
<td>10.2%</td>
</tr>
<tr>
<td>United Kingdom(^1)</td>
<td>6.9%</td>
</tr>
<tr>
<td>Other</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

1. Weighted average of return on capital of country units
2. 2007 number adjusted for non-recurring tax benefits in the UK and NL
3. Net underlying earnings / average shareholder’s equity excluding revaluation reserves
Reduction of capital intensity: NL interest rate hedge

- Impact on Economic Value significantly reduced
- Hedging both duration and convexity hedge
- Swaptions are used to hedge reinvestment risk in products with guarantees
- Swaptions reduce exposure to interest rate volatility significantly
- Daily monitoring of the performance of the hedge
- Guarantees accounted at fair value – reducing earnings at risk

- 2% interest rate decrease
- 2% interest rate increase
- 10 year swap
Reduction of capital intensity: reduction of equity exposure

**Group equity exposure**

- Indirect equity holdings
- Direct equity holdings

**Equity market development**

- FTSE All World (EUR)

- Equity exposure significantly reduced
- Reduced equity exposure in the US and in the Netherlands
Sensitivity to interest rates & equity markets is reduced

- Sensitivity of shareholder’s equity to interest rates and equity markets reduced significantly

<table>
<thead>
<tr>
<th>Impact on net income of parallel movement of yield curve (EUR millions)</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shift up 100 basis points</td>
<td>(454)</td>
<td>(222)</td>
</tr>
<tr>
<td>Shift down 100 basis points</td>
<td>414</td>
<td>142</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact on shareholders’ equity of an immediate change in equity markets (EUR millions)</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity increase 10%</td>
<td>563</td>
<td>324</td>
</tr>
<tr>
<td>Equity decrease 10%</td>
<td>(556)</td>
<td>(341)</td>
</tr>
</tbody>
</table>
Strategic balance sheet management is an important value driver to maximize shareholder value

Strategic balance sheet management requires capital and risk to be:

- Managed together to maximize capital efficiency and balance sheet performance
- Managed consistently across the Group using the same disciplined approach to decisions irrespective of business and geography (‘a dollar of risk is a dollar of risk’)

Strategic balance sheet management facilitates:

1. Optimize the risk / return trade-off
   - maximizing risk adjusted return, and
   - minimizing risk adjusted cost of capital

2. Allocate capital to realize strategic goals
Local risk management in a global framework

- It is important that risk management in the operating units is part of the local management team.
- Risk management is integrated across the Group to ensure best risk management practices are utilized and a consistent ERM framework is adhered to.
- To achieve both objectives, functional lines are in place between group risk and operating unit risk management.

<table>
<thead>
<tr>
<th>Operating unit risk function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local risk management</td>
</tr>
<tr>
<td>Product development support</td>
</tr>
<tr>
<td>Product pricing</td>
</tr>
<tr>
<td>Asset-liability management</td>
</tr>
<tr>
<td>Underwriting</td>
</tr>
<tr>
<td>Operational risk management</td>
</tr>
<tr>
<td>Operating unit risk policy development</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Key messages

Capital position
- Strong capital position and financial flexibility despite market turmoil
- Currency exposure related to capital is well managed
- Cash flows remain strong

Capital efficiency
- Significant scope to improve capital productivity
- Actively de-risking the balance sheet

Integrated capital & risk management
- Strategic balance sheet management
- Local risk management in a global framework
Q&A

For questions please contact Investor Relations
+31 70 344 8305
ir@aegon.com
P.O. Box 85
2501 CB The Hague
The Netherlands
## Capital management framework

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
</table>
| Leverage Tolerance         | AEGON targets its capital base (excluding the fair value reserve) to comprise at least 70% shareholders’ equity (the “Capital Base Ratio”), 25% capital securities, and a maximum 5% dated subordinated and senior debt.  

1 The currency effect of US Perpetual hybrid securities has been revised in this definition to reflect the economic value as opposed to the IFRS accounting view which shows the value of the securities in historical cost terms. |
| Leverage Capacity           | Maximum capacity to issue capital securities within the defined Leverage Tolerance (i.e. not less than 70% Capital Base Ratio)               |
| Capital Adequacy            | AEGON manages capital adequacy of its operating units according to the higher of self-imposed economic, regulatory and rating agency (consistent with AA capital adequacy) requirements |
| Excess Capital              | The amount of capital in excess of the highest of the Capital Adequacy requirement                                                        |
| Financial Flexibility       | The sum of leverage capacity and excess capital                                                                                         |
Cautionary note regarding forward-looking statements

The statements contained in this presentation 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: believe, estimate, target, intend, may, expect, anticipate, predict, project, counting on, plan, continue, want, forecast, should, would, is confident, will, and similar expressions as they relate to our company. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. We undertake 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 our 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 we hold;
- The frequency and severity of insured loss events;
- Changes affecting mortality, morbidity and other factors that may impact the profitability of our insurance products;
- 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;
- Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets;
- Changes in laws and regulations, particularly those affecting our operations, the products we sell, and the attractiveness of certain products to our consumers;
- Regulatory changes relating to the insurance industry in the jurisdictions in which we operate;
- Acts of God, acts of terrorism, acts of war and pandemics;
- Changes in the policies of central banks and/or governments;
- Litigation or regulatory action that could require us to pay significant damages or change the way we do business;
- Customer responsiveness to both new products and distribution channels;
- Competitive, legal, regulatory, or tax changes that affect the distribution cost of or demand for our products;
- Our failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving initiatives; and
- The impact our adoption of the International Financial Reporting Standards may have on our reported financial results and financial condition.

Cautionary note regarding Regulation G (non-GAAP measure)

This presentation includes non-GAAP financial measures: net underlying earnings, operating earnings before tax, value of new business and embedded value. Value of new business and embedded value are not based on IFRS, which are used to prepare and report AEGON’s financial statements and should not be viewed as a substitute for IFRS financial measures. AEGON believes the non-GAAP measures shown herein, together with GAAP information, provides a meaningful measure for the investment community to evaluate AEGON’s business relative to the businesses of our peers.