

Alex Wynaendts
AEGON Chief Executive Officer

Speech to Merrill Lynch Banking & Insurance conference
Venue: London
Date: October 9th, 2008

(Opening slide)

Ladies and gentlemen,

When I presented AEGON's strategy here in London last June, the market environment was already tough. But none of us could have imagined how bad it would get!

(Slide 2)

In June, I set out three key priorities for AEGON.

- I said we needed to make better use of our capital and rebalance our exposure to the global insurance markets.
- I said we needed to improve returns on our existing businesses.
- And I said we needed to manage AEGON more as an international company.

Over the last four months, we've made good progress in each of these areas despite this environment.

I am more convinced than ever that in the current troubled market environment, our strategy is the right one for AEGON.

(Slide 3)

Let's first take a look at our capital position. In these turbulent times, a strong capital position is key, not only as a buffer against possible future losses, but also to take advantage of organic growth opportunities which arise from the turmoil.

The fact is, we have been able to maintain a strong capital position because of the set of actions we have taken before the crisis started and the ones we are implementing now.

- We had already lowered significantly our overall risk profile.
 - We had reduced our exposure to equity and credit markets;
 - We had reduced our interest rate risks and also lowered our guarantees;
 - We stepped up our hedging program and our matching of assets and liabilities.
- Our disciplined liquidity management is serving us well in the current environment.

And we are further reducing our overall risk levels, which will allow us to free up more capital.

And we have also hedged our US dollar cash flows to the holding company for the remainder of 2008 and 2009, putting a floor at present levels, while retaining the full potential of any US dollar strengthening.

(Slide 4)

At the end of June, we had excess capital in our operating units of 842 million euros. In addition, at Group level, we had free cash and leverage capacity amounting to almost 1 billion euros. Which together gives us just under 2 billion euros in financial resources over and above what is consistent with our AA rating.

At the end of the second quarter we had an IGD solvency ratio of 205% which corresponds to a surplus of EUR 8.5 billion, which included a EUR 2.9 billion negative revaluation reserve.

During the 3rd quarter we published our exposures to a number of high profile financial institutions.

We expect the impact on net income from total impairments on our fixed income portfolio in Q3 to be around EUR 275 million.

At the end of Q3 we have excess capital comfortably above the AA rating requirements and we expect to maintain excess capital through the remainder of the year.

After everything that has happened in the fall in markets, AEGON's capital position remains strong.

But in view of the continuing turbulence, we are looking at ways of further increasing our capital buffer.

We are accelerating the actions we have been taking since June and are actively working on a number of specific projects to enhance our capital position. As we work on these options we remain clearly focused on the interests of our shareholders.

(Slide 5)

Let me give you a concrete example. In the past two years alone, we've reduced our equity exposure by more than half. Today, shares make up less than 3% of AEGON's general account portfolio.

Our direct equity exposure is limited to 500 million euros – less than 0.2 percent of our total investments.

(Slide 6)

After releasing our Q2 results, we showed you the sensitivities to equity markets. I want to emphasize that this sensitivity analysis is based on assumptions, one of them is constant equity volatility.

We all know that equity markets have come down by about 10% in the third quarter.

Although the impact of declining share prices is not limited to the direct exposure i.e. 10% of 500 million euro, the total impact of further declining equity markets remains very manageable given our overall financial strength.

(Slide 7)

On the credit side, we also took measures before the crisis started to reduce our risk profile. I would certainly not want to claim that we saw this financial crisis coming. But we did act on the significant tightening of corporate spreads which took place in the year 2003 and 2004.

From 2005, we responded by:

- Reducing the amount allocated to corporate bonds and loans in our general account;
- And shifting more of our investments to higher quality asset classes.

As a result, our credit portfolio is more conservative than it was at the time of the last downturn in the credit cycle seven years ago. Currently, more than 95% of our corporate bonds are rated 'investment grade'. Our corporate bond portfolio is well diversified and we have rebalanced our exposure towards non-cyclical companies.

I strongly believe that taking these measures before the crisis means we are now better able to withstand this very difficult environment.

(Slide 8)

I want to take a look now at our subprime book. In 2001, at the beginning of the housing boom in the US, AAA and AA rated subprime investments accounted for less than two-thirds of our total subprime portfolio. By 2006, that figure had increased to 99%.

With commercial mortgage-backed securities, we adopted the same line. In 2002, less than half our investments in this area were rated AAA. Today, over 94% is AAA.

As a result of these measures, when the US housing market turned in the middle of last year, our portfolio was strong enough to withstand the sharp increase in delinquencies.

We have stated that within the subprime portfolio the risk is mainly in the floating rate, subordinated part of the portfolio, of in total EUR 480 million. This is also where we have seen the first impairments, which totalled 41 million euros. And this is also the case for the majority of our non financial Q3 impairments.

While one of the major concerns in the markets has been the mortgage-backed CDOs, I would like to point out that AEGON has close to zero exposure to these securities.

(Slide 9)

As you can see on this slide, we have reduced our exposure to the US financial sector by about a fifth. We have also upgraded the quality of the financials portfolio over the last six months.

Over that period, we reduced our total exposure to the financial sector by USD 2.8 billion. Among the largest reductions were Lehman, AIG, Washington Mutual and Wachovia.

At the same time, more money has been allocated to cash and treasuries.

(Slide 10)

Although we have incurred only limited credit losses so far, the current turbulent market conditions make it very difficult to predict the amount of future bond losses. This only serves to confirm the statement we made two months ago that, in the current situation, the range of possible outcomes has become wider.

In order to illustrate the potential impact on AEGON, I want to show you the following example.

As you can see from the chart, one hundred basis points of impairments on our investments in the US – which, by the way, is well above any previous downturn in the credit cycle – would lead to a drop in AEGON's net income of 445 million euros and a weakening in our capital position of 550 million euros.

As we saw with the equity markets, the impact of a severe credit crisis remains very manageable for AEGON, in particular if we assume that these potential negative events will be spread over time.

(Slide 11)

Having discussed capital, let's now turn back to the fundamentals of our business.

First, irrespective of the current environment, the fundamentals of the insurance and pensions industry remain attractive.

With all this focus on capital positions and risk management we should not forget about our positions in new markets like China, India and the countries of Central & Eastern Europe, where we've seen the emergence of new and ambitious middle classes who are looking to private sector providers like AEGON to help them secure their long-term financial futures.

The current crisis we believe will create a lot of new opportunities for strong companies like AEGON. We are well placed to take advantage of these opportunities by growing our business organically and through selective acquisitions and partnerships.

(Slide 12)

Secondly, life insurance and pension companies have a sound business model, particularly in this market environment where having strong liquidity is essential.

AEGON is not a bank or a financial conglomerate. We are a life insurance and pension company and our economics are very different.

Our business model is to attract long-term liabilities from our customers and then to invest in long-term assets.

(Slide 13)

This business model ensures we have a very strong liquidity position.

This graph shows AEGON's liquidity position in an extreme, stressed environment. Even in such an environment, our cash flows remain healthy - and the availability of cash clearly outweighs our cash requirements whether you look short-term - over seven days or a month - or you look longer term - over 18 months or two years.

On a very conservative basis we estimate that, even in this extreme scenario, we have positive inflows for at least two years. On top of that, we have significant contingent sources of liquidity at our disposal.

This is very important. It means that we will not be forced to sell investments at a loss to generate cash.

Furthermore AEGON has actively managed the capital structure of the company. As an example, we replaced senior term debt with perpetuals. AEGON has no maturing debt until well into 2010.

(Slide 14)

In June I set out three clear strategic priorities:

1. reallocate capital towards businesses with higher growth and return prospects,
2. improve growth and returns from existing businesses, and
3. manage AEGON as an international group.

(Slide 15)

We also said we would move to a more balanced business mix. And we are:

- We're ensuring that new, emerging markets like China and India have the resources they need to grow.
- But we are also maintaining a significant presence in the United States, the world's biggest life insurance and pension market.

AEGON's position in the US market remains of vital importance to the success of our strategy. Despite the difficulties in the financial sector, the insurance and pension industry in the US is the most advanced in the world. Many product and distribution concepts are developed in the US. We intend to continue to capitalize on our strength in the US to expand in our existing and new markets.

Since June, we've made definite progress towards our strategic objectives.

(Slide 16)

In June, we said we would improve growth and returns from our existing businesses. And we are:

- In Canada, we announced a reshaping of our operations. We've appointed a new CEO and we will realign our business model there to reduce capital use and ensure profitable growth by focussing on selected product ranges;
- Separately, our US organization is implementing an action plan to achieve the promised at least 100 basis point increase in our return on capital by 2010.
- In July, we completed a securitization in the UK that freed up 315 million euros in capital, improving capital efficiency in the UK, while at the same time increasing the Group's overall financial flexibility;
- In November, we will present a detailed strategic plan to address the profitable growth challenge in the Netherlands.

(Slide 17)

After our recent securitization in the UK, we're now looking actively at other, similar opportunities, not just in the UK, but also in the US and the Netherlands.

We announced in June that we plan to release 2 to 3 billion euros over the next five years through securitizations, strengthening our capital position and enhancing our financial flexibility.

(Slide 18)

Finally, we said we would run AEGON as an international company. And we will:

- Our new global asset management organization will be up and running by January;
- And we're using our expertise in the US in variable annuities and life reinsurance to push out into new markets in Europe and Asia.

(Slide 19)

Let me now conclude

As a result of the actions we've taken and continue to take AEGON has maintained a strong financial position

We are committed to the strategy I announced last June.

We have clear direction and set of priorities

And since June we have made good progress