

Aegon NV AGN [XAMS]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship Grade	Industry	Sector
★★★	5.62	5.50	2.20	13.80	Very High	None	D	Insurance - Life	Financial Services

Per share prices in EUR

The Dutch government's bailout of Aegon has helped the firm survive another day.

by Alan Rambaldini
Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through October 01, 2009.
Rating updated as of
October 01, 2009.

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

Thesis Sept. 17, 2009

Aegon is unable to insulate itself from the competitive pressures that plague the life insurance industry. From the consumer's perspective, we don't think there's much difference between its products and those of competitors, making it difficult for Aegon to dig an economic moat. The problem is intensified by the need for high levels of financial leverage to profitably offer products at a price that entices consumers, which means the inevitable investment losses will disproportionately hurt shareholders.

Operating in the exceptionally competitive life insurance market, Aegon is diversified enough to change its product mix in response to the business environment. For instance, during the last few years low rates had driven many of Aegon's customers to surrender their fixed annuities in favor of higher-yielding bank CDs. Management responded by emphasizing the sales of equity-based products such as variable annuities. However, nothing stopped competitors from duplicating this tactic, negating any possible advantage, and once the equity markets declined, consumers flocked right back to lower-risk investments like fixed annuities.

Another strategy Aegon is attempting is targeting the pension market as an opportunity to achieve profitable growth within its primary markets. Although the increasing need for retirement services represents an enticing prospect for the industry, the growth of this demographic group is no secret. Attracted by this potential, formidable competition like ING and Manulife will limit Aegon's ability to gain market share. A strategy of aiming for a particular demographic is easily mimicked, and Aegon has not demonstrated itself to be nimble enough to stay one step ahead of the competition.

To jump-start growth, Aegon is attempting to penetrate underserved markets in Asia and Eastern Europe. Although

these operations remain small and Aegon continues to generate most of its income from reasonably mature markets--the United States and Canada, the Netherlands, and the United Kingdom--the newer markets represent 25% of new business value and should become meaningful earnings contributors during the next decade. However, plenty of other large life insurers are seeking the faster-growing emerging markets to bolster their top lines, and the same price pressures will dominate in these markets, as well.

With consumers largely indifferent to the source of their life insurance, sales tend to be driven by price and convenience. Aegon is not a low-cost provider in the industry, as its commission-based distribution network prevents it from achieving economies of scale regardless of sales volume. It's just another life insurer in a crowded marketplace, struggling to earn its cost of equity.

Valuation

Our fair value estimate is EUR 5.50 per share. Our base-case fair value estimate, to which we assign a 60% probability, is based on several forecasts. The first is that premiums will dip in 2009 and 2010, followed by a modest 3% annual expansion. The second is that overall revenues increase at around 3% after a large bounceback in 2009 as the firm reduces its investment losses dramatically. The third is that average policyholder benefits decrease as equity markets rebound. Our cost of equity estimate is 13%, and our base-case scenario fair value estimate is EUR 5.50 per share. We also have a 20% probability that the firm's investment portfolio increases by 5% as unrealized losses are reversed, leading to a EUR 7.50 fair value estimate, while there is an equal probability that further investment losses force Aegon to raise an additional EUR 2 billion of capital, diluting shareholders to a EUR 3.50 fair value estimate.

Risk

Several Aegon products depend on long-term investment return assumptions to be profitable. Financial market

Aegon NV AGN [XAMS]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship Grade	Industry	Sector
★★★	5.62	5.50	2.20	13.80	Very High	None	D	Insurance - Life	Financial Services

Per share prices in EUR

fluctuations, such as prolonged equity market declines, could reduce earnings substantially and, combined with investment losses, could require additional dilutive capital to prevent insolvency, leading us to place a very high uncertainty rating on our fair value estimate. Although Aegon's sophisticated hedging program helps to control market risks and interest rate risks, earnings in the U.S. and U.K. are not hedged to the euro, leading to exchange rate risk.

Bulls Say

- Aegon is one of the few insurers targeting the underserved middle-income market. The firm uses less costly direct sales in this market, which helps increase profits.
- Baby boomers are reaching retirement age, and Europe's state-run retirement systems are straining. Aegon can win clients in these markets.
- Aegon is well positioned to benefit from the outsourcing of pension plans in the Netherlands.
- Aegon's acquisition of Merrill Lynch's life business provides it with another distribution channel for its products.
- The EUR 3 billion in capital from the Dutch government came with very good terms, shoring up the firm's financial condition in a relatively shareholder-friendly manner.

Bears Say

- Spread-based products account for about half of Aegon's total profits, exposing the firm to interest rate risk.
- Aegon is an undifferentiated insurer in an intensely competitive industry. It will be difficult for the firm to dig an economic moat.
- Aegon's cash flows are exposed to unpredictable equity market and interest rate fluctuations.

- If the euro appreciates against the dollar and the pound, Aegon's profits will slip because the firm does not hedge currency risk.
- As part of its agreement with the Dutch government, in exchange for EUR 3 billion in capital Aegon cannot repurchase shares without approval from the state representatives on its board.

Financial Overview

Growth: Aegon's growth is mixed, with robust results in Asian and Eastern European markets offsetting a decline in the Dutch market. Because internal growth has been hard to come by, the firm has made serial acquisitions, which it will find more difficult to finance in the current environment.

Profitability: Aegon depended on investment gains to increase its profitability during the last few years and will not have this support available for the foreseeable future. We don't think the firm can earn long-term returns on equity in excess of its cost of equity.

Financial Health: Aegon is in better financial shape than many peers, in our opinion, and a recent EUR 1 billion capital raise will help the firm rebuild its balance sheet. The firm has room to meet financial commitments as they come due because 65% of its investments are liquid, and it has the implicit financial support of the Dutch government.

Company Overview

Profile: Aegon's primary businesses are life insurance (primarily term policies) and annuities. The Netherlands-based firm also offers accident and health insurance and guaranteed investment contracts. Aegon's biggest market is the United States; it also has large operations in its domestic market and the United Kingdom.

Aegon NV AGN [XAMS]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship Grade	Industry	Sector
★★★	5.62	5.50	2.20	13.80	Very High	None	D	Insurance - Life	Financial Services

Per share prices in EUR

Vereniging Aegon--the descendant of former mutual insurer AGO, which merged with Ennia in 1983 to form Aegon--owns 10.5% of common shares and all preferred shares.

Strategy: By offering its customers a broad array of financial protection products such as life insurance and asset-accumulating annuity products, Aegon is able to shift its sales focus depending on factors such as competitors' prices or the interest rate environment. The company is expanding internationally to higher-growth markets because earnings are currently highly dependent on mature, slow-growth markets.

Management: CEO and chairman of the executive board Alex Wynaendts has been with the company since 1997. Before taking the top spot, he served as COO. Although we would prefer that the roles of CEO and chairman were split to allow for more effective oversight of management, we are even more concerned about the negligible ownership stake that executives have in the company. Meaningful equity participation in Aegon's future would better align the interests of shareholders and management. Major shareholder Vereniging Aegon owns 10.5% of Aegon's common stock and 100% of the preferred shares, which have 2.08 times the vote of a common share. Aegon and Vereniging Aegon have an agreement under which Vereniging Aegon will not exercise the extra voting rights except in an event such as another entity acquiring 15% of Aegon's common stock. This right would give Vereniging Aegon about one third of the total vote, allowing it to block a takeover attempt that would benefit minority shareholders. The Netherlands also has a significant say in the direction of the firm, as it gained two board seats with its investment in 2008.

Aegon NV AGN [XAMS]

Morningstar Rating ★★★	Last Price 5.62	Fair Value 5.50	Consider Buy 2.20	Consider Sell 13.80	Uncertainty Very High	Economic Moat™ None	Stewardship Grade D	Industry Insurance - Life	Sector Financial Services
----------------------------------	---------------------------	---------------------------	-----------------------------	-------------------------------	---------------------------------	-------------------------------	-------------------------------	-------------------------------------	-------------------------------------

Per share prices in EUR

Analyst Notes

Aug. 13, 2009

Aegon Reports Another Loss in 2Q

On Thursday, Dutch insurer Aegon announced a net loss for its second quarter. Its results barely improved from the first quarter, with asset-impairment charges of EUR 393 million dragging down overall results to a EUR 161 million loss. Revenue also showed a large decrease from a year ago, dropping 16% to EUR 7.12 billion from EUR 8.45 billion.

While the firm said it is ahead of schedule on its full-year capital release target, it also announced plans to raise an additional EUR 1 billion in order to repay some of the capital it took from the Dutch government in 2008. We find it odd that Aegon would claim to have excess capital on one hand but then raise additional equity to pay off debt on the other hand. Even if the entire capital raise were used to repay the government, it would still leave the firm owing an

additional EUR 2 billion with little chance of paying it back through earnings in the near future, as CEO Alex Wynaendts confirms that the company expects high levels of impairments through 2009. Also, despite receiving back a portion of its capital, the Dutch government will not easily relinquish its say in the operations of Aegon, and its intentions are not likely to coincide with the interests of value maximization. The dilution to shareholders, likely future dilution, and state interference cause us to reiterate our fair value estimate and very high uncertainty rating.

May 14, 2009

Aegon Reports Smaller 1Q Loss

On Thursday, Dutch insurer Aegon announced a net loss of EUR 173 million for the first quarter, a significant improvement from the EUR 1.2 billion loss in the fourth quarter of 2008. As was the case in the fourth quarter, the poor results were spread geographically through the firm's three main markets of the Netherlands, the United States, and the United Kingdom. While the results reduced excess capital by EUR 200 million, to EUR 2.7 billion, the firm is still in relatively decent standing, with a solvency ratio of

about 170%. Aegon is on solid footing for the moment, even if it admits it expects high levels of impairments on its investment portfolio through 2009, but its longer-term prospects are less clear; slashing expenses, simplifying operations, and increasing liquidity and capital levels will help the firm manage through this rocky period, but will also reduce its ability to capitalize on an eventual economic rebound. We are maintaining our fair value estimate and very high uncertainty rating.

Disclaimers & Disclosures

No Morningstar employees are officers or directors of this company. Morningstar Inc. does not own more than 1% of the shares of this company. Analysts covering this company do not own its stock. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security.

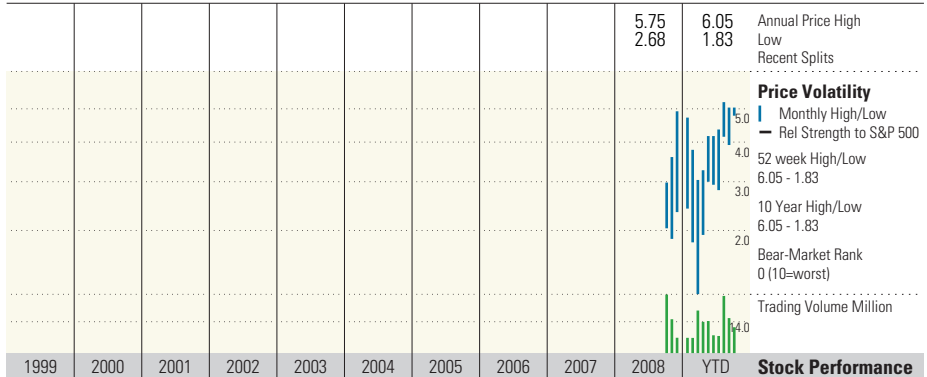
Aegon NV AGN

Sales EUR Mil 16,806 **Mkt Cap EUR Mil** 8,528 **Industry** Insurance - Life **Sector** Financial Services

Aegon's primary businesses are life insurance (primarily term policies) and annuities. The Netherlands-based firm also offers accident and health insurance and guaranteed investment contracts. Aegon's biggest market is the United States; it also has large operations in its domestic market and the United Kingdom. Vereniging Aegon--the descendant of former mutual insurer AGO, which merged with Ennia in 1983 to form Aegon--owns 10.5% of common shares and all preferred shares.

AEGONplein 50 P.O. Box 202
The Hague, NL 2501 CE
Phone: 31 703443210 Website: http://www.aegon.com

Morningstar Rating ★★ ★ **Last Price** 5.62 **Fair Value** 5.50 **Uncertainty** Very High **Economic Moat™** None **Stewardship Grade** D
per share prices in EUR



Growth Rates Compound Annual					
Grade: D	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-83.5	-45.1	-23.3	-7.4	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	—	—	—	—	
Book Value/Share %	-1.3	-13.6	-0.4	3.5	
Stock Total Return %	—	—	—	—	
+/- Industry	—	—	—	—	
+/- Market	—	—	—	—	

Profitability Analysis				
Grade: D	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	-11.6	9.4	—	—
Return on Assets %	-0.6	0.6	—	—
Revenue/Employee EUR K	552.6	1154.2	—	—

Financial Position		
Grade:	12-08 EUR Mil	06-09 EUR Mil
Total Investments	—	—
Cash	10223	6816
Receivables	9686	12264
Def Policy Acquisition Cost	—	—
Accrued Inv Income	—	—
Other Assets	267350	266363
Total Assets	287259	285443
Claims Reserve	—	—
Unearned Premiums	—	—
Debt	5380	7875
Other Liabilities	268125	262223
Total Liabilities	273505	270098
Total Equity	13754	15345

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	—	—	—	—
Forward P/E	10.1	—	—	—
Price/Cash Flow	—	—	—	—
Dividend Yield %	—	—	—	—
Price/Book	0.6	—	—	—
Price/Sales	0.5	—	—	—
PEG Ratio	2.7	—	—	—

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	Stock Performance
—	—	—	—	—	—	—	—	—	—	24.3	Total Return %
—	—	—	—	—	—	—	—	—	—	10.8	+/- Market
—	—	—	—	—	—	—	—	—	—	-5.9	+/- Industry
—	—	—	—	—	—	—	—	—	10.2	0.0	Dividend Yield %
—	—	—	—	—	—	—	—	—	6783	8528	Market Cap EUR Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
14980	20771	21578	21356	19468	19500	18882	24570	26900	22409	21042	Premiums
6690	9612	9933	9372	7386	7152	9937	10376	10457	11598	11347	Investment Income
704	372	384	416	1575	1861	16691	14363	8219	-26481	-15583	Fees & Other
22374	30755	31895	31144	28429	28513	45510	49309	45576	7526	16806	Total Revenue
2940	3683	4105	2579	2792	3047	3968	3720	-2790	-1085	-2430	Operating Income EUR Mil
13.1	12.0	12.9	8.3	9.8	10.7	8.7	7.5	-6.1	-14.4	-14.5	Operating Margin %
1570	2066	2397	1547	1793	1663	2732	2789	2551	-1082	-1845	Net Income
1.20	1.87	1.68	1.04	1.15	1.05	0.00	1.62	1.47	-0.92	-1.22	Earnings Per Share EUR
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.46	0.30	Dividends EUR
1311	1107	1424	1489	1559	1583	1669	1721	1735	1506	1515	Shares Mil
—	—	—	—	—	—	—	—	—	9.13	10.12	Book Value/Share EUR

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
0.9	0.9	0.9	0.6	0.8	0.7	1.0	0.9	0.8	-0.4	-0.6	Return on Assets %
14.7	15.7	17.0	10.5	12.6	11.7	14.7	13.4	14.9	-7.5	-11.6	Return on Equity %
7.0	6.7	7.5	5.0	6.3	5.8	6.0	5.7	5.6	-14.4	-11.0	Net Margin %
0.12	0.13	0.13	0.12	0.12	0.12	0.17	0.16	0.14	0.03	0.06	Asset Turnover
16.9	19.0	17.3	16.7	16.6	16.6	13.7	16.4	20.7	21.0	18.6	Financial Leverage

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	06-09	Financial Health
90.41	61.84	70.87	66.64	72.59	73.91	119.98	77.89	56.32	61.10	72.93	Book Value/Prem
703	683	670	616	452	254	5532	4991	6021	5380	7875	Long-Term Debt EUR Mil
13543	12844	15292	14231	14132	14413	22655	19137	15151	13754	15345	Total Equity EUR Mil
0.05	0.05	0.04	0.04	0.03	0.02	0.24	0.26	0.40	0.39	0.51	Debt/Equity

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Valuation
—	—	—	—	—	—	—	—	—	—	—	Price/Earnings
—	—	—	—	—	—	—	—	—	—	—	P/E vs. Market
—	—	—	—	—	—	—	—	—	0.9	0.5	Price/Sales
—	—	—	—	—	—	—	—	—	0.5	0.6	Price/Book

Quarterly Results						
Revenue EUR Mil	Sep 08	Dec 08	Mar 09	Jun 09		
Most Recent Period	-806.0	1165.0	1850.0	14597.0		
Prior Year Period	12116.2	8656.6	9479.6	6560.0		
Rev Growth %	Sep 08	Dec 08	Mar 09	Jun 09		
Most Recent Period	—	-86.5	-80.5	122.5		
Prior Year Period	-4.3	-43.1	-26.4	-52.6		
Earnings Per Share EUR	Sep 08	Dec 08	Mar 09	Jun 09		
Most Recent Period	-0.25	-0.82	-0.15	-0.21		
Prior Year Period	0.31	0.40	0.07	0.08		

Industry Peers by Market Cap				
	Mkt Cap EUR Mil	Rev EUR Mil	P/E	ROE%
Aegon NV	8528	16806	—	-11.6

Major Fund Holders	
	% of shares
	—
	—
	—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- ▶ Economic Moat™ Rating
- ▶ Discounted Cash Flow
- ▶ Discount Rate
- ▶ Fair Value
- ▶ Uncertainty
- ▶ Margin of Safety
- ▶ Consider Buying/Consider Selling
- ▶ Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based

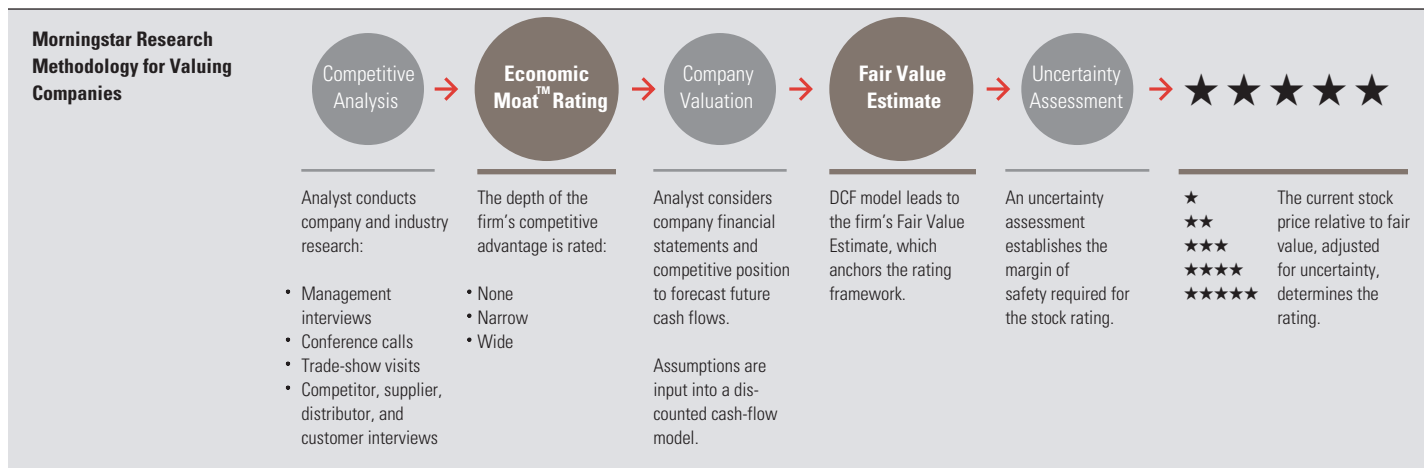
just on movement in the share price. If we think a stock's fair value is \$50, and the shares decline to \$40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at \$40 than they were at \$50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such



Morningstar's Approach to Rating Stocks (continued)

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High,

Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth. The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."
