

RISK MANAGEMENT AND RISK FACTORS

GENERAL

AEGON is exposed to a variety of risks. Some risks are related to the international nature of AEGON's business, such as currency translation risk. Other risks include insurance related risks, such as changes in mortality and morbidity. However, the largest exposure is to changes in financial markets (i.e. interest rate, credit and equity market risks) that affect the value of the investments and technical provisions (including deferred policy acquisition costs - DPAC).

Over the past several years, AEGON has been strengthening its global risk management framework. Capital management is a central function in the AEGON Group. AEGON continues to closely align its capital management with its risk management. This effort continued in 2003 and allows for a more proactive and coordinated approach to risk and capital management. Other benefits include the determination and sharing of best risk management practices and improved consistency in risk reporting group-wide.

AEGON's financial risk management, part of the global risk management framework, is based on asset liability management (ALM) processes and models. These processes and models are in place in each country unit and are not only used to manage risk in each unit, but also for the group. AEGON takes inventory of its risk position across all risk categories. It also measures the sensitivity of net income and shareholders' equity to stochastic and deterministic scenarios. AEGON's management uses the insight gained through these 'what if?' scenarios to manage the group's risk exposure and capital position. The models, scenarios and assumptions used are reviewed and, if necessary, updated each year.

Results of AEGON's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders' equity to various scenarios in 2004. These scenario results do not consider the actions that might be taken to mitigate losses inherent in AEGON's risk management processes. As financial markets fluctuate, these actions may involve selling investments, changing investment portfolio allocation and adjusting interest rates or bonuses credited to policyholders. Also, the results do not take into account correlation between factors and assume unchanged conditions for all other assets and liabilities. Results of the analyses also cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

CURRENCY EXCHANGE RATE RISK

As an international group, AEGON is subject to currency risk. Equity held in subsidiaries is kept in local currencies to the extent that shareholders' equity is required to satisfy regulatory and self-imposed capital requirements. Because of this, currency exchange rate fluctuations may affect the level of AEGON's shareholders' equity as a result of translation into euro. AEGON holds the remainder of its capital base (capital securities, subordinated and senior debt) in various currencies in amounts AEGON targets to correspond to the book value of its country units. This balancing mitigates currency translation impacts to equity and leverage ratios. Currency risk in the investment portfolios is managed using asset liability matching principles. In 2000, AEGON discontinued hedging the income streams from the main non-Dutch units and, as a result, earnings may fluctuate due to currency translation. As AEGON has significant business segments in the Americas and the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between US dollar and euro and between UK pound and euro. AEGON may experience significant changes in net income and shareholders' equity because of these fluctuations.

The 5-year historical income before tax and shareholders' equity held by AEGON are shown in the table below.

Table 1

Income before tax (in millions)	1999	2000	2001	2002	2003
AEGON Americas (in USD)	1,418	1,870	2,034	1,142	1,740
AEGON The Netherlands (in EUR)	861	840	924	659	771
AEGON UK (in GBP)	156	219	231	146	130
Other Countries (in EUR) (12)		57	72	64	79

Capital in units (in millions)	2000	2001	2002	2003
AEGON Americas (in USD)	11,978	13,920	16,518	17,725
AEGON The Netherlands (in EUR)	4,172	3,654	2,605	2,865
AEGON UK (in GBP)	1,499	1,771	2,028	2,173
Other Countries (in EUR)	409	374	399	481

The exchange rates for US dollar and UK pound per euro for each of the last five year-ends are set forth in the table below.

Table 2

Closing rates	1999	2000	2001	2002	2003
USD	1.00	0.93	0.88	1.05	1.26
GBP	0.62	0.62	0.61	0.65	0.70