RISK MANAGEMENT

As an insurance company, AEGON manages risk on behalf of its customers and other stakeholders. As a result, the company is exposed to a variety of underwriting, operational and financial risks. AEGON's risk management and control systems are designed to ensure that these risks are managed effectively and efficiently.

Definition and tolerances

For AEGON, risk management involves:

- Understanding which risks the company is able to underwrite.
- Establishing a firm framework through which the risk-return trade-off associated with these risks can be assessed.
- Establishing risk tolerances and supporting policies limiting the level of exposure to a particular risk or combination of risks.
- Measuring and monitoring risk exposures and actively maintaining oversight over the company's overall risk and solvency positions.

By setting certain pre-defined tolerances and adhering to policies that limit the overall risk the company is exposed to, AEGON is able to accept risk with the knowledge of potential returns and losses.

Objectives of risk management

AEGON must, at all times, maintain a solvency and liquidity position such that no plausible scenario would cause the company to default on its obligations to policyholders. To accomplish this, AEGON has established a number of basic objectives for its risk management strategy:

- **Financial strength:** Ensure AEGON meets long-term obligations to policyholders. AEGON uses three measures to determine its approach to financial strength:
  - the company's internal Excess Capital Requirement;
  - the European Union's Insurance Group Directive capital ratio;
  - and an internal view, based on the company's economic requirements.
- **Continuity:** Ensure a high likelihood that AEGON will meet policyholder obligations, even under plausible extreme events.
- **Culture:** Encourage a strong risk culture by stressing the company's low tolerance for operational risk. This will help improve operational excellence and ensure the company treats its customers and other stakeholders fairly.
- **Risk balance:** Manage the concentration of risk and encourage risk diversification within AEGON.

Types of risk

As an international provider of life insurance, pensions and asset management products, AEGON faces a number of risks, including underwriting, operational and financial. Some of these risks may arise from internal factors, such as inadequate compliance systems. Others, such as movements in interest rates or unexpected changes in longevity or mortality trends, are external in nature. AEGON's most significant risk is to changes in financial markets, related particularly to movements in interest rates, equity and credit markets. These risks, whether internal or external, may affect the company's operations, its earnings, its share price, the value of its investments, or the sale of certain products and services.

Risk management in 2010 [1]

The effects of the global crisis that began in 2008 continued to be felt throughout 2010. Equity markets increased but remained volatile. Interest rates, already at historic lows, declined during the year, improving in the fourth quarter but ending at levels lower than the end of the previous year. After initially narrowing during the first part of the year, credit spreads later widened, reverting to levels seen at the start of 2010. General economic and business conditions remained difficult. During the year, AEGON carried out regular sensitivity analyses to determine the impact of different economic and business scenarios, particularly on the company's

1 Please note that the information here is intended as an overview only. A more detailed explanation of credit risk, equity and other investment risk, interest rate risk, currency exchange rate risk, liquidity risk, underwriting risk and operational risk, as well as other company-wide risk management policies may be found in the consolidated financial statements, note 4. Further information on sensitivity analyses may also be found on these pages.