AEGON NV
Form 20-F
March 31, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-10882

AEGON N.V.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

AEGONplein 50, PO Box 85, 2501 CB The Hague, The Netherlands

(Address of principal executive offices)

Ruurd A. van den Berg

Executive Vice-President Group Finance & Information

AEGON N.V.

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common shares, par value EUR 0.12 per share	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not applicable

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 1,578,227,139 common shares

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

x Yes No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

¨ Yes No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

x Yes No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by checkmark which basis of accounting the registrant has used to prepare the financial statements included in this filing

¨ U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards

Board ¨ Other

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes No x

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PRESENTATION OF CERTAIN INFORMATION

AEGON N.V. is referred to in this Annual Report on Form 20-F as AEGON, we , us or the Company and AEGON N.V. together with its member companies are together referred to as the AEGON Group . For such purposes, member companies means, in relation to AEGON N.V., those companies that are required to be consolidated in accordance with legislative requirements of the Netherlands relating to consolidating accounts. References to the NYSE are to the New York Stock Exchange. References to the SEC are to the Securities and Exchange Commission.

In this Annual Report on Form 20-F, references to EUR and euro are to the lawful currency of the member states of the European Monetary Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union. References to $, USD, US$ and US dollars are to the lawful currency of the United States of America, references to GBP, pound sterling and the UK pound are to the lawful currency of the United Kingdom, references to CAD and Canadian dollars are to the lawful currency of Canada and references to CNY are to the lawful currency of the People s Republic of China.

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FORWARD LOOKING STATEMENTS

The statements contained in this Report 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: b*elieve, 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 interest rate levels and 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.

These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, the company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the company s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

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ITEM 3. KEY INFORMATION

3A Selected financial data

A summary of historical financial data is found in the table below. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

It is important to read this summary in conjunction with the consolidated financial statements and related notes included elsewhere in this Report.

All per share amounts have been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends through December 31, 2008.

Consolidated income statement information

	Years ended December 31,				
In million EUR (except per share amount)	**2008**	**2007**	**2006**	**2005**	**2004**
Amounts based upon IFRS [1]					
Premium income	22,409	26,900	24,570	18,882	18,329
Investment income	9,965	10,457	10,376	9,937	9,339
Total revenues [2]	34,082	39,271	36,615	30,336	29,300
Income/(loss) before tax	(1,061)	3,077	3,971	2,796	2,441
Net income/(loss)	(1,082)	2,551	3,169	2,147	2,010
Net income per common share [3]					
Basic	(0.92)	1.47	1.87	1.25	1.22
Diluted	(0.92)	1.47	1.86	1.25	1.22

1 Our consolidated financial statements are prepared in accordance with IFRS.

2 Excluded from the income statements prepared in accordance with IFRS are receipts related to investment-type annuity products and investment contracts.

3 Per share data has been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends, stock splits and share repurchases through December 31, 2008. Diluted per share data gives effect to all dilutive securities.

Consolidated balance sheet information

	as at December 31,				
In million EUR (except per share amount)	**2008**	**2007**	**2006**	**2005**	**2004**
Amounts based upon IFRS [1]					
Total assets	287,259	314,120	314,813	311,215	286,692
Insurance and investment contracts	240,030	266,735	262,052	264,334	223,969
Trust pass-through securities and (subordinated) borrowings [2]	4,824	5,152	4,395	5,014	5,295
Shareholders equity	6,055	15,151	18,605	18,715	14,458

[1] Our consolidated financial statements are prepared in accordance with IFRS.

[2] Excludes bank overdrafts.

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In thousand	2008	2007	2006	2005	2004
Number of common shares					
Balance at January 1	1,636,545	1,622,927	1,598,977	1,552,685	1,514,378
Stock dividends	41,452	25,218	23,950	46,292	38,307
Share withdrawal	(99,770)	(11,600)			
Balance at end of period	1,578,227	1,636,545	1,622,927	1,598,977	1,552,685

Dividends

AEGON has declared interim and final dividends for the years 2004 through 2008 in the amounts set forth in the table below. Dividends in US dollars are calculated based on the foreign exchange reference rate (the rate based on the daily concertation procedure between central banks as published each working day at 14:15 hours by the European Central Bank) on the business day following the announcement of the interim dividend or on the business day following the shareholder meeting approving the relevant final dividend.

	EUR per common share [1]			USD per common share [1]		
Year	Interim	Final	Total	Interim	Final	Total
2004	0.21	0.21	0.42	0.26	0.27	0.53
2005	0.22	0.23	0.45	0.27	0.29	0.56
2006	0.24	0.31	0.55	0.31	0.42	0.73
2007	0.30	0.32	0.62	0.41	0.50	0.91
2008	0.30		0.30	0.45		0.45

[1] Paid, at each shareholder s option, in cash or in stock.

On August 7, 2008, AEGON declared an interim dividend for 2008 of EUR 0.30 per common share. AEGON repurchased 17.8 million shares to neutralize the dilutive effect of the 2007 final dividend. On October 28, 2008, AEGON announced that it would be issuing 750 million new convertible core capital securities to Vereniging AEGON. The Dutch state agreed to fund the purchase by Vereniging AEGON. The new securities rank *pari passu* with common shares and are entitled to a dividend only in the event and to the extent that AEGON elects to pay a dividend on common shares. AEGON retains the discretion to set its own dividend policy without regard to the new capital securities. AEGON has decided to forego a final dividend for 2008.

Annual dividends on AEGON s preferred shares are calculated as a percentage of the paid-in capital on the preferred shares using a rate equal to the European Central Bank s fixed interest percentage for basic refinancing transactions plus 1.75% (as determined on the first Euronext Amsterdam working day of the financial year to which the dividend relates) resulting in a rate of 5.75% for 2008. Applying this rate to the weighted average paid-in capital of our preferred shares during 2008, the annual dividend on our preferred shares payable for 2008 is EUR 122 million. The rate for annual dividends on preferred shares in 2009, as determined on January 2, 2009, is 4.25% and the annual dividend on preferred shares for 2009, based on the paid-in capital on the preferred shares on January 2, 2009, will be EUR 90 million.

Exchange rates

Fluctuations in the exchange rate between the euro and the US dollar will affect the dollar equivalent of the euro price of our common shares traded on Euronext Amsterdam and, as a result, are likely to impact the market price of our common shares in the United States. Such fluctuations will also affect any dollar amounts received by holders of common shares upon conversion of any cash dividends paid in euros on our common shares.

As of March 2, 2009 the USD exchange rate [1] was EUR 1 = USD 1.2580.

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The high and low exchange rates [1] for the US dollar per euro for each of the last six months through February 2009 are set forth below:

	Sept. 2008	Oct. 2008	Nov. 2008	Dec. 2008	Jan. 2009	Feb. 2009
High (USD per EUR)	1.4737	1.4058	1.3039	1.4358	1.3946	1.3064
Low (USD per EUR)	1.3939	1.2446	1.2525	1.2634	1.2804	1.2547

The average exchange rates[1] for the US dollar per euro for the five years ended December 31, 2008, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate
2004	1.2478
2005	1.2400
2006	1.2661
2007	1.3797
2008	1.4695

1 The US dollar exchange rates are the noon buying rates in New York City for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York.

3B Capitalization and indebtedness

Not applicable

3C Reasons for the offer and use of proceeds

Not applicable

3D Risk factors

i Risks relating to our business

The following discusses some of the key risk factors that could affect AEGON s business and operations, as well as other risk factors that are particularly relevant to us in the current period of significant economic and market disruption. Additional risks to which we are subject include, but are not limited to, the factors mentioned under Forward-Looking Statements above and the risks of our businesses described elsewhere in this Annual Report on Form 20-F. Other factors besides those discussed below or elsewhere in this Annual Report also could adversely affect our business and operations, and the following risk factors should not be considered a complete list of potential risks that may affect AEGON and our subsidiaries.

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i Risks related to the global financial markets and general economic conditions

Disruptions in the global financial markets and general economic conditions have affected, and could have material adverse effects on, AEGON s business, results of operations and financial condition.

Global financial markets have been experiencing extreme and unprecedented volatility and disruption, which may have a material adverse effect on our results of operations, financial condition and liquidity. Our results of operations and financial condition may be materially affected from time to time by general economic conditions, such as levels of employment, consumer lending or inflation in the countries in which we operate. As part of the slowdown in world economies during 2008, with many countries going into recession, there have been large numbers of redundancies in developed countries. Unemployment rates are expected to rise further in 2009. Bank lending has been severely reduced and the housing markets in Europe and North America are declining. In addition to the other risks described in this section, these conditions have resulted and may continue to result in a reduction in demand for our products as well as a reduction in the value of the assets in our general account. We also may experience a higher incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer or stop paying insurance premiums. We cannot predict definitively whether or when such actions, which could impact our business, results of operations, cash flows and financial condition, may occur.

In view of ongoing uncertainty with respect to the financial and economic environment, on December 1, 2008, AEGON s core capital was increased through a special transaction with Vereniging AEGON and the State of The Netherlands (see Item 10C Material Contracts of this Form 20-F). As part of this arrangement, the State of the Netherlands nominated two representatives to AEGON s Supervisory Board. Governmental action in The Netherlands and elsewhere to address the financial crisis could further impact our business. We cannot predict with any certainty whether these actions will be effective or the effect they may have on the financial markets or on our business, results of operations, cash flows and financial condition.

Credit risk

Defaults in our debt securities, private placements and mortgage loan portfolios may adversely affect profitability and shareholders equity.

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, AEGON typically bears the risk for investment performance equaling the return of principal and interest. AEGON is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), OTC derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy, downturns in real estate values, operational failure and fraud. In the current weak economic environment AEGON incurred significant investment impairments on AEGON s investment assets due to defaults and overall declines in the capital markets. Further excessive defaults or other reductions in the value of these securities and loans could have a materially adverse effect on AEGON s business, results of operations and financial condition.

Equity market risk

A decline in equity markets may adversely affect our profitability and shareholders equity, sales of savings and investment products and the amount of assets under management.

Fluctuations in the equity markets have affected our profitability, capital position and sales of equity related products in the past and continue to do so. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investment where we bear all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts for account of policyholders where funds are invested in equities (such as variable annuities, unit-linked products and mutual funds). Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee that we earn on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees, which requires AEGON to establish reserves to fund these future guaranteed benefits when equity market returns do not meet or exceed these guarantee levels. Our reported results under IFRS are also at risk if returns are not sufficient to allow amortization of deferred policyholder acquisition costs (DPAC), which could impact our reported net income as well as shareholders equity. Volatile or poor market conditions may also significantly reduce the demand for some of our savings and investment products, which could lead to lower sales and net income. Deteriorating general economic conditions, have led to and may again result in significant decreases in the value of our equity investments. Equity markets fell markedly in 2008 due to the turmoil in credit markets and the worldwide recession leading to a recognition of impairment losses on equity securities held in general account of EUR 203 million (2007: EUR 45 million; 2006: EUR 36 million).

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Interest rate risk

Interest rate volatility or sustained low interest rate levels may adversely affect our profitability and shareholders equity.

In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may and usually do increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments by us requiring the sale of invested assets at a time when the prices of those assets are affected adversely by the increase in market interest rates. This may result in realized investment losses. These cash payments to policyholders also result in a decrease in total invested assets and net income. Early withdrawals may also require accelerated amortization of deferred policy acquisition costs, which in turn reduces net income.

During periods of sustained low interest rates, we may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided in policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. Life insurance and annuity products may be relatively more attractive to consumers, resulting in increased premium payments on products with flexible premium features and a higher percentage of insurance policies remaining in force year to year. Mortgages and redeemable bonds in the investment portfolio are more likely to be repaid as borrowers seek to re-finance at lower interest rates and we may be required to reinvest the proceeds in securities bearing lower interest rates. Risk is heightened in the current market and economic environment in which certain securities may be unavailable. Accordingly, net income may decline as a result of a decrease in the spread between returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

If interest rates rise there may be unrealized losses on some of our assets that will be recorded as negative income under IFRS. This is inconsistent with the IFRS accounting on much of our liabilities, where corresponding unrealized gains when interest rates rise do not affect income in the shorter term. Over time, the short-term reduction in income due to rising interest rates would be offset by higher income in later years, all else being equal.

Base interest rates set by central banks and government treasuries fell significantly in 2008 in an attempt to free-up the credit markets and soften the world-wide recession. Management believes these rates are likely to remain low for the remainder of 2009. However, credit spreads increased in 2008 and remain high.

The profitability of spread-based business depends in large part upon the ability to manage interest rate spreads, credit risk and other risks inherent in the investment portfolio. We may not be able to successfully manage interest rate spreads or the potential negative impact of those risks. Investment income from general account fixed income investments for the years 2006, 2007 and 2008 was EUR 7.0 billion, EUR 7.1 billion and EUR 6.7 billion, respectively. The value of the related general account fixed income investment portfolio at the end of the years 2006, 2007 and 2008 was EUR 126 billion, EUR 126 billion and EUR 125 billion, respectively.

See Item 18.4, Quantitative and Qualitative Disclosure about Market Risk , of this Annual Report for detailed sensitivity analyses.

Currency exchange rate risk

Fluctuations in currency exchange rates may affect our reported results of operations.

As an international group, we are subject to foreign currency translation risk. Foreign currency exposure also exists when policies are denominated in currencies other than the issuer s functional currency. Currency risk in the investment portfolios backing insurance and investment liabilities are managed using asset liability matching principles. Assets allocated to equity are kept in local currencies to the extent shareholders equity is required to satisfy regulatory and our self-imposed capital requirements. Therefore, currency exchange rate fluctuations may affect the level of our consolidated shareholders equity as a result of translation of the equity of our subsidiaries into euro, our reporting currency. We hold the remainder of our capital base (capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of our operating units. This balancing is intended to mitigate currency translation impacts on equity and leverage ratios. We may also hedge the expected dividends from our principal operating units that maintain their equity in currencies other than the euro. To the extent these expected dividends are not hedged or actual dividends vary from expected, our net income and shareholders equity may fluctuate. As we have significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. We may experience significant changes in net income and shareholders equity because of these fluctuations.

Direct currency speculation or program trading is not permitted at our operating units unless explicit approval is granted by appropriately authorized senior management.

The exchange rates between our primary operating currencies (US dollar, euro and UK pound) fluctuated widely during 2008. The US dollar to euro exchange rate fluctuated by as much as 15% over the year but finished little changed from the start of 2008. The UK pound fell to record lows against the euro.

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For the Americas segment, which primarily conducts its business in US dollars, total revenues and net loss in 2008 amounted to EUR 13 billion and EUR 1,379 million, respectively. For the United Kingdom segment, which primarily conducts its business in UK pounds, total revenues and net income in 2008 amounted to EUR 12 billion and EUR 80 million, respectively. On a consolidated basis, these two segments represented 73% of the total revenues and 120% of the net loss for the year 2008. Additionally, we borrow in various currencies to hedge the currency exposure arising from our operations. On December 31, 2008 we have borrowed or swapped amounts in proportion to the currency mix of capital in units, which was denominated approximately 50% in US dollars, 35% in euro, 10% in UK pounds and 5% in Canadian dollars.

Liquidity risk

Illiquidity of certain investment assets may prevent us from selling investments at fair prices in a timely manner.

Liquidity risk is inherent in much of our business. Each asset purchased and liability sold has liquidity characteristics that are unique. Some liabilities are surrenderable while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, have low liquidity. Consistent with the latter half of 2007, 2008 was characterized by adverse market conditions generally affecting the value and liquidity of assets and in particular asset-backed securities. These conditions were exacerbated by the sharp reduction in demand for most global financial assets that began towards the end of the third quarter of 2008. Due to the current reduced liquidity in capital markets, we may be unable to sell or buy significant volumes of assets at quoted prices. In addition, any securities we issue of significant volume may be issued at higher financing costs due to these current impaired liquidity conditions. Although AEGON manages its liquidity position for extreme events, including greatly reduced liquidity in capital markets, if these conditions were to persist for an extended period of time, we may need to sell assets to meet our insurance obligations while still in this impaired liquidity market.

Approximately 35% of our general account investments are less liquid.

Underwriting risk

Differences between actual claims experience and underwriting and reserve assumptions may require liabilities to be increased.

Our earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions used in setting the prices for our products and establishing the technical liabilities for expected claims. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, our income would be reduced. Furthermore, if the less favorable claims experience were expected to be a sustained trend we may be required to increase liabilities for other related products, which could reduce our income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the balance sheet and are being amortized into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs could be accelerated and may even require write-offs due to an expectation of unrecoverability. This could have a materially adverse effect on our reported results of operations and financial condition.

Sources of underwriting risk include policy lapses, policy claims (such as mortality and morbidity) and expenses. In general, we are at risk if policy lapses increase as sometimes we are unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. We sell certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance. We also sell certain other types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. We are also at risk if expenses are higher than assumed by our management.

ii Other risks

We may be required to increase our statutory reserves for certain of our products.

The National Association of Insurance Commissioners (NAIC) Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, requires insurers in the United States to establish additional statutory reserves for term life insurance policies with long-term premium guarantees. In addition, The Application of the Valuation of Life Insurance Policies Regulation , commonly known as Regulation AXXX requires insurers to establish additional statutory reserves for certain universal life insurance policies with secondary guarantees. Virtually all of our newly issued term and universal life insurance products are now affected by Regulations XXX and AXXX, respectively.

In response to these regulations, we have implemented reinsurance and capital management actions to mitigate their impact. However, we may not be able to implement actions to mitigate the impact of Regulation XXX and AXXX on future sales of term or universal life insurance products, potentially resulting in an adverse impact on these products and our market position in the life

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insurance market. Additionally, any change to or repeal of Regulation XXX or AXXX could also reduce the effectiveness of our reinsurance and capital management actions, adversely affecting our life insurance operations.

For certain of our products, market performance impacts the level of statutory reserves and statutory capital we are required to hold, and may have an adverse effect on returns on capital associated with these products. Capacity for reserve funding available in the marketplace is currently limited as a result of market conditions generally. Our ability to manage efficiently capital and economic reserve levels may be impacted, thereby impacting profitability and return on capital.

A downgrade in our ratings may increase policy surrenders and withdrawals, adversely affect relationships with distributors and negatively affect our results.

Claims paying ability and financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade (or the potential for such a downgrade) of us or any of our rated insurance subsidiaries may, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. These withdrawals may require the sale of invested assets, including illiquid assets, at a price that may result in realized investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause us to accelerate amortization of deferred policy acquisition costs, reducing net income.

In addition, a downgrade may adversely affect relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services, which may negatively impact new sales and adversely affect our ability to compete. This would have a materially adverse effect on our business, results of operations and financial condition.

As of March 2009 the Standard and Poor s (S&P), Moody s and Fitch insurance financial strength ratings and ratings outlook of our primary life insurance companies in our major country units are as follows:

	AEGON USA	AEGON NL	AEGON Scottish Equitable
S&P rating	AA	AA	AA
S&P outlook	CWN[1]	CWN[1]	CWN[1]
Moody s rating	A1	Not rated	Not rated
Moody s outlook	Negative	Not rated	Not rated
Fitch rating	AA	Not rated	Not rated
Fitch outlook	Negative	Not rated	Not rated

1 Credit Watch Negative

During 2008, the credit ratings for AEGON remained unchanged, however, the outlook for all three credit ratings was changed to negative. Early 2009, Moody s lowered the senior debt rating for AEGON N.V. to A3 with a negative outlook, Fitch lowered its senior debt rating to AA with a negative outlook, while Standard & Poor s put its senior debt rating of A+ on credit watch negative, with as likely outcome an affirmation or a one-notch downgrade to A. At the same time, Moody s and Fitch also lowered the Insurance financial strength ratings of AEGON USA by one notch, to A1 and AA respectively.

The rating agencies have recently heightened the level of scrutiny that they apply to financial institutions, have increased the frequency and scope of their credit reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. The outcome of such reviews may have adverse ratings consequences, which could have a material adverse effect on our results of operations and financial condition.

In late September and early October 2008, Fitch Ratings Ltd., Moody s Investor Service, and Standard & Poor s, respectively, each revised its outlook for the US life insurance sector to negative from stable, citing, among other things, the significant deterioration and volatility in the credit and equity markets, economic and political uncertainty, and the expected impact of realized and unrealized investment losses on life insurers capital levels and profitability.

We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without notice by any rating agency.

Changes in government regulations in the countries in which AEGON operates may affect profitability.

Our insurance business is subject to comprehensive regulation and supervision in all countries in which we operate. The primary purpose of such regulation is to protect policyholders, not holders of securities. Changes in existing insurance laws and regulations may affect the way in which we conduct business and the products offered. Changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may

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adversely affect our ability to sell new policies or claims exposure on existing policies. Additionally, the insurance laws or regulations adopted or amended from time to time may be more restrictive or may result in higher costs than current requirements. The continuing financial markets dislocation may lead to extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the countries in which we operate. Changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business thus having a material adverse effect on our financial condition or results of operations.

Litigation and regulatory investigations may adversely affect our business, results of operations and financial condition.

We face significant risks of litigation and regulatory investigations and actions in connection with activities as an insurer, securities issuer, employer, investment advisor, investor and taxpayer. In recent years, the insurance industry has increasingly been the subject of litigation, investigation and regulatory activity by various governmental and enforcement authorities concerning common industry practices such as the disclosure of contingent commissions and the accounting treatment of finite reinsurance or other non-traditional insurance products. We cannot predict at this time the effect this current trend towards litigation and investigation will have on the insurance industry or our business. Lawsuits, including class actions and regulatory actions, may be difficult to assess or quantify, may seek recovery of very large and/or indeterminate amounts, including punitive and treble damages, and their existence and magnitude may remain unknown for substantial periods of time. A substantial legal liability or a significant regulatory action could have a materially adverse effect on our business, results of operations and financial condition.

AEGON may be unable to manage our risks successfully through derivatives.

We are exposed to currency fluctuations, changes in the fair value of our investments, the impact of interest rate, equity markets and credit spread changes and changes in mortality and longevity. We use common financial derivative instruments such as swaps, options, futures and forward contracts to hedge some of the exposures related to both investments backing insurance products and company borrowings. This is a more pronounced risk to us in view of the stresses suffered by financial institutions and the volatility of credit and equity markets. We may not be able to manage the risks associated with these activities successfully through the use of derivatives. In addition, a counterparty may fail to honor the terms of its derivatives contracts with us. Our inability to manage risks successfully through derivatives or a counterparty s failure to honor its obligations or the systemic risk that failure is transmitted from counterparty to counterparty, could have a materially adverse effect on our business, results of operations and financial condition.

State statutes and foreign country regulators may limit the aggregate amount of dividends payable by subsidiaries of AEGON, thereby limiting the Company s ability to make payments on debt obligations.

Our ability to make payments on debt obligations and pay certain operating expenses is dependent upon the receipt of dividends from subsidiaries. Certain of these subsidiaries have regulatory restrictions that can limit the payment of dividends.

Changes in accounting policies may affect our reported results and shareholders equity.

Since 2005, our financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and adopted by the European Union. Any future change in these accounting principles may have a significant impact on our reported results, financial condition and shareholders equity. This includes the level and volatility of reported results and shareholders equity.

Tax law changes may adversely affect our profitability, as well as the sale and ownership of AEGON s products.

Insurance products enjoy certain tax advantages, particularly in the United States and the Netherlands, which permit the tax deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products under certain conditions and within limits. Taxes on this inside build-up of earnings may not be payable at all and, if payable, generally are due only when the earnings are actually paid.

The US Congress has, from time to time, considered possible legislation that could make our products less attractive to consumers, including legislation that would reduce or eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. In addition, the US Congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal of the estate tax continues to be discussed. This could have an impact on insurance products and sales in the United States.

The US Government, as well as state and local governments, also considers from time to time tax law changes that could increase the amount of taxes that we pay. For example, the US Treasury Department and the Internal Revenue Service are expected to propose new regulations regarding the methodology to determine the dividends received deduction (DRD) related to variable life insurance and annuity contracts. The DRD reduces the amount of dividend income subject to tax and is a significant component of the difference between our effective tax rate and the federal statutory tax rate of 35%. A change in the DRD, including the possible elimination of this deduction, could reduce our consolidated net income.

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Changes to tax laws in the Netherlands at the end of 2005 have reduced the attractiveness of early retirement plans, but tax advantages have been granted from January 1, 2006 for savings products known as Levensloop.

Any changes in United States or Dutch tax law affecting similar products could have a materially adverse effect on our business, results of operations and financial condition.

Competitive factors may adversely affect our market share.

Competition in our business segments is based on service, product features, price, commission structure, financial strength, claims paying ability, ratings and name recognition. We face intense competition from a large number of other insurers, as well as non-insurance financial services companies such as banks, broker-dealers and asset managers, for individual customers, employers, other group customers, agents and other distributors of insurance and investment products. Consolidation in the global financial services industry can enhance the competitive position of some of our competitors by broadening the range of their products and services, increasing their distribution channels and their access to capital. In addition, development of alternative distribution channels for certain types of insurance and securities products, including through the internet, may result in increasing competition as well as pressure on margins for certain types of products. These competitive pressures could result in increased pricing pressures on a number of products and services, particularly as competitors seek to win market share. This may harm our ability to maintain or increase profitability.

The adverse market and economic conditions that began in the second half of 2007 and that have continued and worsened since then can be expected to result in changes in the competitive landscape. For example, the financial distress experienced by certain financial services industry participants as a result of such conditions may lead to acquisition opportunities, although our ability or that of our competitors to pursue such opportunities may be limited due to lower earnings, reserve increases, and a lack of access to debt capital markets and other sources of financing. Such conditions may also lead to changes by us or our competitors in product offerings and product pricing that could affect our and their relative sales volumes, market shares and profitability. Additionally, the competitive landscape in which we operate may be further affected by certain government sponsored programs in the United States and similar governmental actions outside of the United States in response to the severe dislocations in financial markets.

AEGON USA ranked tenth in individual term life sales, fifth in individual universal life sales (source: internal research for the nine months ended September 30, 2008) and twelfth in variable life sales (source: Towers Perrin survey for nine months ended September 30, 2008). AEGON USA ranked third in sales of fixed annuities sold through banks, fourteenth in variable annuities sold through banks and second overall in annuity sales through banks (source: internal research for the nine months ended September 30, 2008) and first in Synthetic Guaranteed Investment Contracts (source: internal research for the nine months ended September 30, 2008). Our major insurance competitors in the United States include American International Group (AIG), Hartford, ING, Manulife, Metropolitan Life, Nationwide, New York Life and Prudential.

In the Netherlands, AEGON is the fourth largest life insurer. AEGON is the largest pension insurer and sixth largest individual life insurer based on gross life premium income (source: Regulatory Returns 2007). AEGON also owns the second largest insurance broker in the Netherlands (source: Yearly Report Assurantie Magazine 2008). AEGON s major competitors in the Netherlands include ING, Delta Lloyd, Eureko, ASR Verzekeringen (formerly known as Fortis) and SNS Reaal.

AEGON UK faces strong competition in all its markets from three key sources: life and pension companies, investment management houses and independent financial adviser firms. AEGON s key competitors in the United Kingdom life and pension market include Aviva, AXA, Friends Provident, Legal and General, Prudential UK and Standard Life. AEGON s main competitors in the UK retail investment market are typically the investment management houses (e.g., Fidelity, Henderson, Merrill Lynch etc). The independent financial advisor market is fragmented, with a large number of relatively small firms.

In Canada, AEGON ranks seventh in overall individual life insurance sales (new business premiums) and fifth in the universal life market, (source: LIMRA s Canadian Individual Life Insurance Sales Third Quarter 2008). AEGON's primary competitors in Canada are: Manulife Financial, Sun Life Financial, Industrial-Alliance, RBC Life, Canada Life, AIG Life, Empire Life, Equitable and Desjardins.

AEGON Spain s main competitors are Santander Seguros, Mapfre, Ibercaja, Vidacaixa, Adeslas, Sanitas, Zurich and Asisa. In Hungary, AEGON s major competitors include Allianz, Generali-Providencia, ING and OTP-Garancia. In Taiwan, the major competitors of AEGON s agency channel are Prudential UK, ING, Prudential US, Manulife and New York Life while in the bank and broker channels the major competitors are Allianz, Metlife and Cardiff. The main competitors of AEGON-CNOOC in China are AVIVA-COFCO, Allianz, Generali, Heng An Standard and Citic-Prudential.

The default of a major market participant could disrupt the markets.

The failure of a sufficiently large and influential institution could disrupt securities markets or clearance and settlement systems in our markets. This could cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect us and our contract counterparties. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the insurance industry.

The experience suffered by AIG in the aftermath of the bankruptcy of Lehman Brothers in September 2008 is an example of this type of risk. Management believes that despite increased attention recently systemic risk to the markets in which we operate continues to exist, and dislocations caused by the interdependency of financial market participants continues to be a potential source of material adverse changes to our business, results of operations and financial condition.

We may be unable to retain personnel who are key to the business.

As a global financial services enterprise with a decentralized management structure, we rely, to a considerable extent on the quality of local management in the various countries in which we operate. The success of our operations is dependent, among other things, on our ability to attract and retain highly qualified professional personnel. Competition for key personnel in most countries in which we operate is intense. Our ability to attract and retain key personnel, in particular senior officers, experienced portfolio managers, mutual fund managers and sales executives, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent. In connection with the special transaction dated December 1, 2008, among AEGON, Vereniging AEGON and the State of the Netherlands securing the provision of capital to AEGON by the State of the Netherlands, AEGON agreed to develop a sustainable remuneration policy for the Executive Board and Senior Management that is aligned to new international standards. AEGON also agreed to amend the employment agreements of the present members of its Executive Board in such a way that no member will be entitled to any performance-related remuneration for the year 2008 and no member will upon termination of his employment be entitled to any severance payment in excess of one year s fixed salary. Likewise, AEGON agreed not to enter into new employment agreements with new or existing Executive Board members that are not in line with the foregoing, as long as the loan provided by the State of the Netherlands to Vereniging AEGON has not been redeemed. These restrictions, alone or in combination with the other factors described above, could adversely affect our ability to hire and retain qualified employees.

Judgments of US courts are not enforceable against AEGON in Dutch courts.

The United States and the Netherlands do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Judgments of US courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in Dutch courts. Therefore, our shareholders that obtain a judgment against us in the United States may not be able to require us to pay the amount of the judgment unless a competent court in the Netherlands gives binding effect to the judgment. It may, however, be possible for a US investor to bring an original action in a Dutch court to enforce liabilities against us, our affiliates, directors, officers or any expert named therein who reside outside the United States, based upon the US federal securities laws.

Reinsurers to whom AEGON has ceded risk may fail to meet their obligations.

Our insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on evaluation of the specific risk, which is subject, in certain circumstances, to maximum limits based on the characteristics of coverage. Under the terms of the reinsurance agreements the reinsurer agrees to reimburse for the ceded amount in the event the claim is paid. However, our insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. See Item 18, Financial Statements Schedule to Financial Statements Reinsurance of this Annual Report for a table showing life insurance in force amounts on a direct, assumed and ceded basis for 2006, 2007 and 2008. See also Item 18, Financial Statements , Note 18.11 of this Annual Report for the amount of reinsurance assets at each balance sheet date for reinsurance ceded.

In accordance with industry practices, we reinsure a portion of our life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Approximately 33% of our total direct and assumed (for which we act as a reinsurer for others) life insurance in force is ceded to other insurers. In the United States, Transamerica Reinsurance retrocedes a significant portion of the risk it assumes. The major reinsurers of AEGON USA are Munich American Reassurance Company, RGA Reinsurance Company, Swiss Re and US Branch Sunlife Assurance Company of Canada. AEGON Canada s major reinsurers are Munich Re, RGA and Swiss Re. The major reinsurers of AEGON UK include GE Frankona, Munich Re, RGA, Swiss Re and XL Re. The major reinsurer for life insurance for AEGON The Netherlands is Swiss Re and for non-life insurance are Munich Re, Partners Re and Swiss Re. The major reinsurers of AEGON Hungary for non-life are Swiss Re, Munich Re and Hannover Re and for life insurance are Munich Re and RGA. AEGON Spain s major reinsurers are General Re, Nacional de Reaseguros, Scor Life, RGA and Swiss Re. AEGON Taiwan s major reinsurers are Swiss Re, Hannover Re, General Re and the local Central Reinsurance Corporation. AEGON China's major reinsurers are General Re, Munich Re and Swiss Re.

Reinsurance may not be available, affordable or adequate to protect us against losses.

As part of our overall risk and capacity management strategy we purchase reinsurance for certain risks underwritten by our various business segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

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AEGON may have difficulty managing its expanding operations and AEGON may not be successful in acquiring new businesses or divesting existing operations.

In recent years we have made a number of acquisitions and divestitures around the world and may make further acquisitions and divestitures in the future. Growth by acquisition involves risks that could adversely affect our operating results and financial condition. These include: the potential diversion of financial and management resources from existing operations; difficulties in assimilating the operations, technologies, products and personnel of the acquired company; significant delays in completing the integration of acquired companies; the potential loss of key employees or customers of the acquired company; potential losses from unanticipated litigation; and tax and accounting issues.

Our acquisitions could result in additional indebtedness, costs, contingent liabilities and impairment expenses related to goodwill and other intangible assets. In addition, they may divert management s attention and other resources. Divestitures of existing operations could result in us assuming or retaining certain contingent liabilities. All of the foregoing could adversely affect our businesses, results of operations and financial condition. Future acquisitions may also have a dilutive effect on the ownership and voting percentages of existing shareholders. There can be no assurance that we will successfully identify suitable acquisition candidates or that we will properly value acquisitions made. We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed once negotiations have commenced.

Catastrophic events, which are often unpredictable by nature, could result in material losses and abruptly and significantly interrupt AEGON s business activities.

Our operating results and financial position can be adversely affected by volatile natural and man-made disasters such as hurricanes, windstorms, earthquakes, terrorism, riots, fires and explosions, pandemic disease and other catastrophes. Over the past several years changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure. Generally, we seek to reduce our exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, such events could lead to considerable financial loss to our business. Furthermore, natural disasters, terrorism and fires could disrupt our operations and result in significant loss of property, key personnel and information about our clients and us. If our business continuity plans have not included effective contingencies for such events they could adversely affect our business, results of operations, corporate reputation and financial condition for a substantial period of time.

We regularly develop new financial products to remain competitive in our markets and to meet the expectations of our clients. If clients do not achieve expected returns on those products, we may be confronted with legal claims, pressure groups and negative publicity.

We may face claims from customers and adverse negative publicity if our products result in losses or fail to result in expected gains, regardless of the suitability of products for customers or the adequacy of the disclosure provided to customers by us and by the intermediaries who distribute our products. New products that are less well understood and that have less of a historical performance track record may be more likely to be the subject of such claims. Any such claims could have a materially adverse effect on our results of operations, corporate reputation and financial condition.

Our operations support complex transactions and are highly dependent on the proper functioning of information technology and communication systems. Any failure of AEGON s information technology or communications systems may result in a material adverse effect on our results of operations and corporate reputation.

While systems and processes are designed to support complex transactions and to avoid systems failure, fraud, information security failures, processing errors and breaches of regulation, any failure could lead to a materially adverse effect on our results of operations and corporate reputation. In addition, we must commit significant resources to maintain and enhance our existing systems in order to keep pace with industry standards and customer preferences. If we fail to keep up-to-date information systems, we may not be able to rely on accurate information for product pricing, risk management and underwriting decisions.

Inadequate or failed processes or systems, human factors or external events could adversely affect our profitability, reputation or operational effectiveness.

Operational risk is inherent in our business and can manifest itself in many ways including business interruption, poor vendor performance, information systems malfunctions or failures, regulatory breaches, human errors, employee misconduct, and/or internal and external fraud. These events can potentially result in financial loss, harm to our reputation and hinder our operational effectiveness. Management attempts to control these risks and keep operational risk at appropriate levels by maintaining a well-controlled environment and sound policies and practices. Notwithstanding these control measures, however, operational risk is part of the business environment in which we operate and is inherent in our size as well as our geographic diversity and the scope of the businesses we operate. Our risk management activities cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. We may incur losses from time to time due to these types of risks.

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ii Risks Relating to AEGON s common shares

Our share price could be volatile and could drop unexpectedly making it difficult for investors to resell our common shares at or above the price paid.

The price at which our common shares trade will be influenced by a large number of factors, some of which will be specific to AEGON and its operations and some of which will be related to the insurance industry and equity markets in general. As a result of these factors, investors may not be able to resell their common shares at or above the price paid for them. In particular, the following factors, in addition to other risk factors described in this section, may have a material impact on the market price of AEGON s common shares:

- Investor perception of AEGON as a company;
- Actual or anticipated fluctuations in AEGON s revenues or operating results;
- Announcement of intended acquisitions, disposals or financings, speculation about such acquisitions, disposals or financings;
- Changes in AEGON s dividend policy, which could result from changes in AEGON s cash flow and capital position;
- Sales of blocks of AEGON s shares by significant shareholders, including Vereniging AEGON;
- Price and timing of any refinancing or conversion of AEGON s convertible core capital securities;
- A downgrade or rumored downgrade of AEGON s credit or financial strength ratings, including placement on credit watch;
- Potential litigation involving AEGON or the insurance industry in general;
- Changes in financial estimates and recommendations by securities research analysts;
- Fluctuations in capital markets including foreign exchange rates, interest rates and equity markets;
- The performance of other companies in the insurance sector;
- Regulatory developments in the Netherlands, the United States, Canada, the United Kingdom and Other Countries;
- International political and economic conditions, including the effects of terrorist attacks, military operations and other developments stemming from such events and the uncertainty related to these developments;

News or analyst reports related to markets or industries in which AEGON operates; and

General insurance market conditions.

The high and low prices of AEGON s common shares on Euronext Amsterdam were EUR 16.06 and EUR 11.46 respectively in 2007 and EUR 11.98 and EUR 2.68 respectively in 2008. The high and low sales prices of our common shares on the NYSE were USD 21.90 and USD 16.75 respectively in 2007 and USD 16.75 and USD 3.50 respectively in 2008. All share prices are closing prices.

AEGON and its significant shareholders may offer (additional) common shares in the future, and these and other sales may adversely affect the market price of the outstanding common shares.

It is possible that AEGON may decide to offer additional common shares in the future, for example, to effect an acquisition. In connection with Vereniging AEGON s refinancing in September 2002, it entered into an equity repurchase facility (Repo Facility) and a back-up credit facility (Back-up Facility) (both facilities were updated in April 2005). As is customary in these repurchase agreements, if sufficient collateral is not maintained by Vereniging AEGON (which in this case is based on the number of common shares and the prevailing share price) and amounts are not available under the Back-up Facility, the lenders under the Repo Facility may dispose of our common shares held by them under the Repo Facility in order to satisfy amounts outstanding. An additional offering of common shares by us, sales of common shares by significant shareholders or by lenders to Vereniging AEGON, or the public perception that an offering or such sales may occur, could have an adverse effect on the market price of our common shares. As of December 31, 2008, the total authorized share capital of AEGON consisted of 3,000,000,000 common shares, par value euro 0.12 per share, and 1,000,000,000 preferred shares A and B, par value euro 0.25 per share. All our outstanding common shares are freely tradable, and all shareholders, including large shareholders such as Vereniging AEGON, are free to resell their shares at any time.

The convertible core capital securities recently issued to Vereniging AEGON may be converted into common shares and dilute existing common shareholders.

On December 1, 2008, AEGON issued new convertible core capital securities to Vereniging AEGON as part of the special transaction securing the provision of capital to AEGON by the State of the Netherlands via Vereniging AEGON. The terms of the convertible core capital securities permit AEGON, on or after December 1, 2011, to convert any or all of the convertible core capital securities into common shares on a one-for-one basis. Any conversion to common shares would dilute existing common shareholders. If AEGON exercises its conversion right, Vereniging AEGON may opt to require AEGON to redeem the convertible core capital securities on the conversion date.

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Vereniging AEGON, AEGON s major shareholder, holds a large percentage of the voting shares and therefore has significant influence over AEGON s corporate actions.

Prior to September 2002, Vereniging AEGON, beneficially owned approximately 52% of the voting shares and thus held voting control over AEGON. In September 2002, Vereniging AEGON reduced its beneficial ownership to approximately 33% of the voting shares (excluding issued common shares held in treasury by AEGON). Pursuant to the 1983 Merger Agreement between AEGON and Vereniging AEGON, as amended, in case of an issuance of shares by AEGON, Vereniging AEGON may purchase as many class B preferred shares as would enable it to prevent or correct a dilution to below its actual percentage of the voting shares, unless Vereniging AEGON as a result of exercising these option rights would increase its voting power to more than 33%. The option granted to Vereniging AEGON permits it to purchase class B preferred shares up to a maximum of the non-issued part of the class B preferred shares included from time to time in AEGON s authorized capital if necessary to prevent or correct such dilution. The class B preferred shares would then be issued at par value (euro 0.25), unless a higher price is agreed. In the years 2003 through 2007, 35,170,000 class B preferred shares were issued under these option rights. In 2008, no option rights existed.

In addition, we have implemented certain changes to our corporate governance structure and the relationship with Vereniging AEGON pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Consequently, under normal circumstances Vereniging AEGON s voting power, based on the current numbers of outstanding and voting shares, is reduced to approximately 23.73% of the votes exercisable in the General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances at the sole discretion of Vereniging AEGON (such as the acquisition of 15% of the voting shares, a tender offer for shares or a proposed business combination, each by any person or group of persons whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging AEGON s voting rights for a limited period of 6 months, will increase to a percentage that currently amounts to 33.77%. Consequently, Vereniging AEGON may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

- Adopting amendments to the Articles of Incorporation;
- Adopting the annual accounts;
- Approving a consolidation or liquidation;
- Approving a tender offer, merger, sale of all or substantially all of the assets or other business combination;

In particular during the periods when Vereniging AEGON is entitled to exercise its increased voting rights, it will generally have sufficient voting power to veto certain decisions presented to the General Meeting of Shareholders, including any proposal relating to the following matters:

(1) Rejecting binding Supervisory Board nominations for membership on the Supervisory Board and Executive Board;

(2) Appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination; and

(3) Suspending or removing an Executive Board or Supervisory Board member other than pursuant to a Supervisory Board proposal.

Currency fluctuations may adversely affect the trading prices of AEGON s common shares and the value of any cash distributions made.

Because our common shares listed on Euronext Amsterdam are quoted in euros and our common shares listed on the New York Stock Exchange (NYSE) are quoted in US dollars, fluctuations in exchange rates between the euro and the US dollar may affect the value of AEGON shares. In addition, we declare cash dividends in euros, but pay cash dividends, if any, on our New York shares in US dollars based on an exchange rate set the business day following the shareholder meeting approving the dividend. As a result, fluctuations in exchange rates may affect the value of any cash dividends paid.

Convertible securities (or other securities that permit or require AEGON to satisfy its obligations by issuing common shares) that AEGON may issue could influence the market price for AEGON s common shares.

Any market that develops for convertible securities or other securities that permit or require us to satisfy obligations by issuing common shares that we have issued or may issue in the future would be likely to influence, and be influenced by, the market for AEGON s common shares. For example, the price of AEGON s common shares could become more volatile and could be depressed by investors anticipation of the potential resale in the market of substantial amounts of AEGON s common shares received at maturity. Our common shares could also be depressed by the acceleration of any convertible securities (or other such securities) that AEGON has issued by investors who view such convertible securities (or other such securities) as a more attractive means of participation in AEGON s equity. Negative results could also be produced by hedging or arbitrage trading activity that may develop involving such convertible securities (or other such securities) and AEGON s common shares. Any such developments could negatively affect the value of AEGON s common shares.

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ITEM 4. INFORMATION ON THE COMPANY

4A History and development of the AEGON Group

i General

AEGON N.V., domiciled in the Netherlands, is a limited liability stock company organized under Dutch law.

AEGON N.V. was formed in 1983 through the merger of AGO and Ennia, both of which were successors to insurance companies founded in the 1800 s.

AEGON N.V., through its member companies that are collectively referred to as AEGON or the AEGON Group, is one of the world s largest listed life insurance and pension companies as ranked by market capitalization and assets on December 31, 2008 (source: Bloomberg). AEGON is headquartered in the Netherlands and employs, through its subsidiaries, about 31,000 people worldwide. AEGON s common shares are listed on stock exchanges in Amsterdam (Euronext), New York (NYSE), London and Tokyo.

AEGON s businesses focus on life insurance, pensions, savings, and investment products. The AEGON Group is also active in accident, supplemental health, general insurance, and some limited banking activities. AEGON N.V. is a holding company. The operations described above are conducted through operating subsidiaries.

AEGON s established markets are the United States, the Netherlands and the United Kingdom. In addition, AEGON is present in over more than 20 markets in the Americas, Europe and Asia.

AEGON encourages product innovation and fosters an entrepreneurial spirit within its businesses. New products and services are developed by local business units with a continuous focus on cost control. AEGON uses a multi-brand, multi-channel distribution approach to meet its customers needs.

The AEGON Group has the following reportable geographic segments: the Americas (which include the United States, Canada and Mexico), the Netherlands, the United Kingdom and Other Countries, which includes Hungary, Spain, Taiwan, China, Poland, India and a number of other countries with smaller operations.

For information on our business segments, see Note 18.5 Segment Information , to our financial statements in Item 18 of this Annual Report. The business activities of our principal subsidiaries are more fully described within the country sections that follow.

Our headquarters are located at:

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PO Box 85

2501 CB The Hague

The Netherlands

Telephone number: +31.70.344.3210

Internet site: www.aegon.com

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ii Strategic framework

Commitment to core business

AEGON believes that by focusing on what it does best it can provide lasting value for customers and shareholders alike. AEGON remains focused on three core markets: life insurance, pensions and other long-term savings and investment products.

Serving local needs with global resources

AEGON stresses the importance of combining local management and local decision-making with the expanding resources of one of the world s leading life insurance and pension companies.

Pursuing sustainable, profitable growth

AEGON pursues sustainable, profitable growth, by aiming to improve its return on equity and writing new business with a minimum internal rate of return of 11% after tax.

Aiming to be a market leader

Whatever business it s in and wherever that business is located, AEGON strives always to be a market leader. This is essential to realize benefits of scale and to attract and retain talented managers and strong local business partners.

Expand into new, high-growth markets

AEGON wants to strengthen its international presence by expanding into new markets that offer prospects for profitable, above-average, long-term growth. To achieve this, the Group seeks out opportunities both to grow existing businesses and branch out into new areas through carefully selected acquisitions and partnerships.

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iii Recent developments and capital expenditures and divestments

Acquisitions

In December 2008, AEGON acquired an additional 40% stake in the Spanish Caja Cantabria Vida y Pensiones, of which already 10% was acquired in 2007. As a result, AEGON holds a 50% stake as of December 31, 2008. The total purchase price amounted to EUR 27 million for the 40% stake. Acquired assets included EUR 2 million cash positions. Goodwill of EUR 63 million was recognized. Since the acquisition date, the company has attributed EUR 0 million to net income. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to EUR 0 million and EUR 12 million respectively.

On October 1, 2008 AEGON signed an agreement to acquire a 50% interest in Mongeral SA Seguros e Previdência (Brazil). The transaction is expected to close by the end of the first quarter of 2009, subject to approval from Brazil s regulatory authorities. The total consideration to be paid up front will amount to EUR 44 million. Based on the performance of the company, AEGON may pay a maximum additional consideration to the company of EUR 11 million.

In October 2008, AEGON acquired a 50% stake in Caixa Terrassa Vida y Pensiones, a Spanish life insurance, pension and health company. The total purchase price amounted to EUR 186 million. Acquired assets included EUR 11 million cash positions. Goodwill of EUR 167 million was recognized. Since the acquisition date, the company has attributed EUR 0 million to net income. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to EUR 4 million and EUR 109 million respectively.

In July 2008, AEGON finalized the acquisition of 100% of the shares of the Turkish life insurance and pension company Ankara Emeklilik Anonim Şirketi. The total purchase price amounted to EUR 34 million. Since the acquisition date, the company has attributed EUR (3) million (loss) to net income. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to respectively EUR (7) million (loss) and EUR 11 million. As a result of the acquisition, assets and liabilities were recognized for EUR 54 million and EUR 20 million respectively, including a cash position of EUR 5 million. Goodwill of EUR 30 million reflects the future new business and synergies with existing business.

In June 2008, AEGON acquired 100% of the shares of the Polish pension fund company PTE Skarbiec-Emerytura SA. The total purchase price amounted to EUR 139 million. Since the acquisition date, the company has attributed EUR 1 million to net income. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to respectively EUR 4 million and EUR 14 million. As a result of the acquisition, assets and liabilities were recognized for EUR 156 million and EUR 17 million respectively, including a cash position of EUR 4 million. Goodwill of EUR 39 million reflects the future new business and potential synergies with existing business.

In June 2008, AEGON completed the acquisition of 100% of the shares of Heller-Saldo 2000 Pension Fund Management Co., UNIQA Investment Service Co. and UNIQA Financial Service Co. in Hungary for a total purchase price of EUR 21 million. The companies merged subsequently. Since the acquisition date, the company has attributed EUR 1 million to net income. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to respectively EUR 2 million and EUR 4 million. As a result of the acquisition, assets and liabilities were recognized for EUR 24 million and EUR 3 million respectively, including cash position of EUR 1 million. Goodwill of EUR 6 million reflects the future new business and potential synergies with existing business.

In April 2008, AEGON acquired a 49% stake in Industrial Fund Management Co., Ltd, a Chinese mutual fund manager. The company is renamed AEGON Industrial Fund Management Co. The total purchase consideration amounted EUR 22 million. As a result of the acquisition, assets and liabilities were recognized for EUR 28 million and EUR 6 million respectively, including EUR 6 million of goodwill and EUR 15 million cash and cash equivalents. The company is accounted for as a joint venture.

In December 2007, AEGON USA acquired 100% of the shares of Merrill Lynch Life Insurance Company and ML Life Insurance Company of New York, companies that sell non-participation life insurance and annuity products such as variable life insurance, variable annuities, market value adjusted annuities and immediate annuities. The total purchase price amounted to EUR 849 million cash consideration. The opening balance sheet of the acquired business was recorded provisionally at December 31, 2007, as the acquisition occurred within a few days of year end. The provisionally determined opening balance sheet includes total assets of EUR 10.8 billion, including EUR 8.3 billion separate account assets, EUR 1.8 billion general account investments and EUR 149 million cash and cash equivalents. Total liabilities are EUR 9.9 billion and comprise separate account liabilities of EUR 8.3 billion and insurance contract liabilities of EUR 1.7 billion. Goodwill amounted to EUR 111 million reflecting the expected profitability of new business. The carrying amount of the assets and liabilities of the acquired companies amounted to EUR 10.8 billion and EUR 9.9 billion respectively, the estimated fair values are subject to adjustment at the initial allocation for a one year period as more information relative to the fair values as of the acquisition date become available. As the acquisition was completed at the end of December, the net income of the acquired operations was not material to the AEGON s consolidated net income. Had the acquisition taken place on 1 January 2007, the contribution of these companies to the Group s net income is estimated at EUR 75 million; contribution to revenues would have been approximately EUR 271 million.

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In June 2007 AEGON acquired OPTAS N.V., a Dutch life insurance company specializing in employee benefit products and services within the Dutch group pension market for EUR 1.5 billion OPTAS N.V., the successor of Stichting Pensioenfonds voor de Vervoer- en Havenbedrijven (a pension fund for companies active in the transport and port industries) was converted into a public company in 1997. At the end of 2006, OPTAS had 60,000 policyholders and reported total gross written premiums of EUR 86 million, with total assets of EUR 4.5 billion. Assets held as investment amounted to EUR 3.4 billion, the insurance liabilities were EUR 2.9 billion. A portion of the shareholders' equity of OPTAS is subject to restrictions as set out in the articles of association of the company. These restrictions assure continued fulfillment of existing policy obligations and will remain in force after the acquisition. Since the acquisition, OPTAS has contributed EUR 11 million to AEGON s income before tax. Had the acquisition taken place on 1 January 2007, OPTAS contribution to the Group s net income is estimated at EUR 22 million, contribution to revenues would have been approximately EUR 251 million.

In March 2007, AEGON USA completed the acquisition of 100% of the shares of Clark Inc., a public company specializing in the sale of corporate-owned life insurance, bank-owned life insurance and other benefit programs. The total purchase price was EUR 263 million, consisting of EUR 207 million cash consideration, EUR 36 million of Clark debt assumed by AEGON and EUR 20 million cost basis of Clark common stock already owned by AEGON and transaction costs. Since the acquisition date, Clark has contributed EUR 4.6 million to the net income of AEGON. If the acquisition had taken place as of January 1, 2007, Clark should have contributed an amount of EUR 90 million to total revenues and EUR 4.7 million to net income of AEGON USA. AEGON has disposed operations for an amount of EUR 42 million regarding Clark business, not considered to be core to AEGON, to Clark s former management after the acquisition. As a result of the acquisition, assets and liabilities were recognized for EUR 549 million and EUR 325 million respectively, which included a cash position of EUR 14 million. Goodwill was recognized for an amount of EUR 84 million, reflecting the future commission revenue from inforce contracts. In addition an intangible asset was established for the present value of future commission receivables in the amount of EUR 365 million.

In March 2007, AEGON has completed the acquisition of the Polish pension fund management company PTE Ergo Hestia S.A. The company was renamed to PTE AEGON Poland. The cost of the acquisition amounted to EUR 72 million, which was paid in cash. Since the acquisition date, the company has contributed EUR 2 million to net income. If the acquisition had been as of January 1, 2007, contribution to net income and total revenues would amount to respectively EUR 3 million and EUR 12 million. Assets of EUR 81 million and liabilities of EUR 9 million were recognized due to the acquisition. Goodwill amounting to EUR 23 million reflects the future new business to be generated and potential synergies with existing businesses.

In September 2006, AEGON The Netherlands acquired the remaining 55% of the Unirobe shares. The distribution activities of the Dutch operations are placed under the Unirobe Meeùs Group. No operations have been disposed off as a result of the combination. The cost of acquiring the remaining 55% of the shares was EUR 59 million, which was paid in cash. In total an amount of EUR 96 million was paid to acquire the 100% interest. At the acquisition date assets and liabilities were recognized for EUR 186 million and EUR 134 million respectively which included a cash position of EUR 0 million. Since the acquisition date, Unirobe has contributed EUR 5 million to the net income of AEGON in 2006. The acquisition resulted in the recognition of EUR 49 million goodwill, of which EUR 18 million had previously been included in the measurement of the interest held in Unirobe as an associate. Goodwill reflects the commission income that is expected to be generated by Unirobe in future years.

Disposals

During 2006 AEGON sold its interest in Scottish Equitable International S.A. for EUR 29 million, together with an earn-out arrangement. The cash and cash equivalents held at the end of March 2006 by Scottish Equitable International S.A. prior to the sale was EUR 20 million. The acquiring company, La Mondiale Participations S.A. is a 35% associate of AEGON. 35% of the gain on the sale was eliminated on consolidation.

4B Business overview

i Supervision

Individual companies in the AEGON Group are each subject to solvency supervision in their respective home countries. Based on European Union legislation (Directive 98/79/EC) adopted in 1998, the supervisory authority in the Netherlands (De Nederlandsche Bank, or DNB) is required, as a lead supervisor, to carry out supplementary supervision . The supplementary supervision of insurance companies in an insurance group enables the lead supervisors to make a detailed assessment of the financial position of the insurance companies that are part of that group. The Directive requires DNB to take into account the relevant financial affiliations between the insurance companies and other entities in the group. In this respect, AEGON is required to submit reports to DNB twice a year setting out all the significant transactions and positions between insurance and non-insurance companies in the AEGON Group.

Both the insurance and banking companies in the AEGON Group are required to maintain a minimum solvency margin based on local requirements. The required solvency margin is the sum of the margins of each of AEGON s insurance and banking subsidiaries, based on the local requirements. Available liability capital includes shareholders equity, convertible core capital securities, perpetual capital securities, and dated subordinated debt and senior debt.

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The Americas

1.1 Background

AEGON Americas comprises AEGON USA, AEGON Canada as well as the Group s operations in Mexico.

AEGON USA

AEGON USA[1] is one of the leading life insurance organizations in the United States and the largest of AEGON s country units. AEGON USA has more than twenty million customers and employs over 13,000 people. AEGON USA companies can trace their roots back as far as the mid-nineteenth century. AEGON USA includes some of the best known names in the US insurance business, including Transamerica and Monumental Life. AEGON USA s main offices are in Cedar Rapids, Iowa, and Baltimore, Maryland, but with many affiliated companies offices located throughout the United States.

Through these subsidiaries and affiliated companies, AEGON USA provides a wide range of life insurance, pensions, long-term savings, investment and reinsurance products. In addition, AEGON USA has a significant asset management business, with almost USD 116 billion invested in bonds, equities, home loans, cash and treasuries.

Like other AEGON companies around the world, AEGON USA uses a variety of distribution channels to ensure customers can access the group s products in a way that best suits them. For many years, AEGON USA has had close relations with banks across the United States, but the group also distributes products and services via agents, broker-dealers and specialized financial advisors, online as well as through direct and worksite marketing.

AEGON Canada

Based in Toronto, AEGON Canada offers a range of insurance products and financial services, primarily through its Transamerica Life Canada subsidiary, first established in 1927. Total employment of AEGON Canada on December 31, 2008 was 645.

AEGON Mexico

In 2006, AEGON acquired a 49 percent interest in Seguros Argos, a Mexican life insurance companies. As part of their joint venture, AEGON and Seguros Argos set up a jointly owned pension fund management company, Afore Argos.

1.2 Organizational structure

AEGON USA

AEGON USA, LLC., is a principal holding company of AEGON USA. AEGON USA was founded in 1989 when AEGON decided to bring all its operating companies in the United States under a single financial services holding company. Business is conducted through subsidiaries of two holding companies AEGON USA, LLC. and Commonwealth General. AEGON has operating licenses in every US state, the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

AEGON USA s primary insurance subsidiaries are:

- Transamerica Life Insurance Company
- Transamerica Financial Life Insurance Company
- Merrill Lynch Life Insurance Company

ML Life Insurance Company of New York

Monumental Life Insurance Company

Stonebridge Life Insurance Company

Stonebridge Casualty Insurance Company

Western Reserve Life Assurance Co. of Ohio

AEGON s subsidiary companies in the United States contain four operating groups acting through one or more of the AEGON USA life insurance companies: Agency, Direct to Consumer, Institutional, and Pension and Asset Management.

[1] Throughout this report, AEGON USA refers to AEGON companies managed from the United States. Similarly, AEGON Canada refers to all AEGON companies operating in Canada. AEGON s operations in North America the United States, Canada and Mexico are referred to collectively as AEGON Americas.

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AEGON USA companies are present in five main lines of business:

- Life and protection
- Individual savings and retirement
- Pensions and asset management
- Institutional
- Life reinsurance

These lines of business, which are described in further detail below, represent groups of products that are sold through our operating groups to the various distributions and sales channels. The group structure is designed to enable AEGON USA to manage the organization efficiently, to identify business synergies, to pursue cross-selling opportunities, and to improve operating efficiencies. Coordinated support services complement operations by providing functional support in systems technology, investment management, regulatory compliance, and various corporate functions. Products are offered and distributed through one or more of the AEGON USA licensed insurance or brokerage subsidiary companies.

AEGON Canada

AEGON Canada s main operating subsidiaries are:

- Transamerica Life Canada
- AEGON Capital Management Inc.
- AEGON Fund Management Inc.

AEGON Mexico

In Mexico, AEGON has a 49 percent interest in:

- Seguros Argos S.A. de C.V.
- Afore Argos S.A. de C.V.

1.3 Overview sales and distribution channels

1.3.1 AEGON USA

As in other countries, AEGON USA uses a variety of sales and distribution channels in the United States. These include:

- independent and career agents
- financial planners
- registered representatives
- independent marketing organizations
- banks
- regional and independent broker-dealers
- benefit consulting firms
- wirehouses
- affinity groups
- institutional partners

In addition, AEGON USA provides a range of products and services online and uses direct and worksite marketing. This approach allows AEGON USA customers to access products and services in a way that best suits them. Generally, AEGON USA companies are focused on particular products or market segments, ranging from lower income to high net worth individuals and large corporations.

AEGON USA has distribution agreements in place with a network of banks across the United States, giving the company access to millions of potential customers, particularly for individual savings, pension and retirement products as well as some institutional products. AEGON USA works closely with banks across the country to ensure its products are tailored to the individual and changing needs of the company s customers.

1.3.2 AEGON Canada

AEGON Canada uses a variety of sales channels to distribute its products and services, including, most notably, independent financial advisors. Other channels are:

- independent general agencies
- agencies owned by Transamerica Life Canada and operated as separate profit centers
- bank-owned national broker-dealers
- World Financial Group, part of AEGON Americas

other national, regional or local niche broker-dealers

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1.4 Overview lines of business

1.4.1 United States

1.4.1.1 Life and protection

General description

AEGON USA provides permanent life, universal life, term life and variable universal life insurance and protection products. A number of subsidiaries offer life insurance products tailored to a specific segment of the US market.

Products

Permanent life

Permanent life insurance provides life-long financial protection. Most permanent policies have a cash value feature with implicit minimum interest rate guarantees prescribed by statutory requirements of between 4 and 5%. A customer may either withdraw the cash value, subject to withdrawal charges, or receive the benefit upon a predetermined event, such as the death of the insured.

Permanent life insurance is also known as whole life insurance in the United States. It can be participating or non-participating. Premiums are generally fixed and are payable over the life of the policy or for a limited time period. Participating policies allow the policyholder to receive policy dividends, as declared by the insurer s board of directors. These dividends are not guaranteed and are based on the insurer s experience for a given class of policies.

Universal life

Universal life insurance has either a flexible or single premium. The contract has a feature that allows the customer greater flexibility as to when to pay premiums and with regard to the amount of the premiums, subject to a minimum and a maximum. The interest rate at which the cash value accumulates is adjusted periodically.

Minimum interest rate guarantees exist in all generations of fixed universal life products, as they are required by non-forfeiture regulations. These are mostly at 4%, with newer products at 3%. No lapse guarantees were introduced in recent universal life products. The no lapse guarantee feature provides a policyholder the guarantee that the universal life policy will stay in force, even if the cash value becomes zero or less than zero, provided that a specified minimum premium payment is made when due or a shadow account remains positive. The guarantee period can vary from five years to the entire contract term.

Equity indexed universal life products have both interest rate guarantees of between 1 and 2% and equity index return guarantees, with a cap currently around 12%.

Term life insurance

Term life insurance provides protection for a certain period of time and allows the customer to select the duration of coverage and the amount of protection. The policy pays death benefits only if the customer dies during the specified term. Most term life policies do not accumulate a cash value. The policies can usually be renewed upon expiration and premiums normally increase upon renewal. Certain term life insurance products sold in the United States, such as mortgage insurance and credit life insurance, provide a death benefit that decreases over the term period, based on a stated method. The rate of decrease usually corresponds with the decrease in the principal balance of the loan. Some term life insurance products include a cash value feature designed to return premiums after a specified number of years.

Variable universal life

Variable universal life products in the United States are similar to universal life products, but include investment options and maintenance of investments for the account of policyholders. Some products contain minimum death benefit guarantees and the risk is that poor market performance may erode the policyholder account value to the extent that available cost of insurance charges prove inadequate. The fixed account has a minimum guaranteed interest rate of either 3% or 4% depending on the product. Newer products have a 2% guarantee. This product also contains a no lapse guarantee, which is an equity option. Under the no lapse guarantee, the contract is guaranteed to remain in force regardless of the level of underlying account value, provided the policyholder continues to meet minimum premium requirements. The value of this guarantee increases with higher cost of insurance charges and with lower minimum required premiums. This product is not sensitive to equity returns until the no lapse guarantee threshold is breached.

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Other life

Life products also include life insurance sold as part of defined benefit pension plans, endowment policies, post-retirement annuity products and group risk products.

Health

AEGON USA offers accident, critical illness, cancer treatment, hospital indemnity and short-term disability policies. Some of these plans provide lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. Others pay scheduled benefits for specific hospital or surgical expenses and cancer treatments, hospice care and cover deductible, as well as co-payment amounts not covered by other health insurance.

Long Term Care (LTC) insurance products offered through Transamerica Long Term Care provide benefits to policyholders who require care due to a chronic illness or cognitive impairment. LTC Insurance serves as an asset protection tool by reimbursing policyholders for costly expenses associated with LTC services, and it may also help a family better manage the financial, health and safety issues that are associated with LTC.

Sales and distribution

The Monumental Division targets the middle-income market through three distribution channels: a career agency sales force that provides face-to-face sales and service to policyholders, and through Independent Marketing Organizations (IMOs) focused on two distinct markets Military (First Command) and Final Needs[1] (formerly Pre-Needs).

During 2008, the Monumental Division implemented a new Grow Premium, Grow Profit strategy to streamline Career Agency operations in 22 states to reduce fixed costs and improve productivity and earnings. The plan includes reducing field agent counts and administrative support, and using technology to reengineer systems and expand web-based tools and training. Within the past year, the organization also began recruiting part-time, non-employee producers using two low-cost distribution models: 1) a twin-career opportunity for independent agents assigned to Career Agency managers and a similar dual career opportunity for public safety officers. The ultimate goal of these initiatives is to better align Career Agency with AEGON s middle-market strategies and help agents migrate into higher income (USD 50,000 to USD 75,000) homes.

In the IMO-Military sales channel, general agents sell Monumental Life products and services predominantly life insurance to military families living on or near US military bases both in the United States and abroad. Typically, agents have served in the US armed forces. With Monumental s expanded commitment to support First Command s distribution system, the IMO-Military channel is well-positioned to grow while continuing to produce highly profitable and persistent business.

During 2008, the Monumental Division solidified its commitment to deliver life insurance to middle-income customers, age 55 and older. Going forward, Monumental s Final-Needs distributors and regional directors will use existing relationships to help IMOs in the final expense market expand the use of life insurance as a funding vehicle for funerals.

Transamerica Insurance & Investment Group, a marketing unit for Transamerica Life Insurance Company (TLIC) and its affiliates, focuses on the upper-middle and affluent markets and offers an array of term life insurance, universal life insurance, variable universal life insurance, and fixed annuities to help individuals, families and businesses build, protect, and preserve their assets.

Similarly, career agents sell primarily interest-sensitive and ordinary life insurance to the middle to upper income segments of the US market.

World Financial Group (WFG) targets the middle-income market in the United States. WFG has a fully owned broker-dealer, World Group Securities Inc. The US middle income market continues to offer substantial growth opportunities. Typically, middle-income households earn between USD 25,000 and USD 100,000 a year. Approximately 40 percent of such households do not currently have life insurance cover. This is largely because, over the past several years, insurance brokers have focused on higher net worth individuals while many US companies have switched money out of employee life insurance contributions and into healthcare to meet rapidly climbing medical bills.

Western Reserve Life has been part of AEGON Group since 1991. Western Reserve Life provides a range of life insurance products and variable annuities, chiefly to individual savers and investors.

Through Transamerica Worksite Marketing, AEGON offers voluntary payroll deduction life and supplemental health insurance for companies ranging in size from just five employees to more than 100,000. Products and services are marketed to employees at their place of work and are designed to supplement employees existing benefit plans.

[1] Final Needs sells life insurance policies designed to meet funeral costs, and markets its products and services mainly through funeral directors and agents.

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AEGON Direct Marketing Services, Inc. (ADMS) is a direct marketer of life, supplemental health, and specialty insurance products as well as fee-based programs. Using a variety of direct response techniques such as inbound and outbound telemarketing, point-of-sale, direct mail, television, statement inserts, internet, and more, ADMS offers consumers convenient alternatives for purchasing insurance.

With operations in North America, Europe, Asia Pacific, and Latin America, ADMS currently services nearly 23 million policies worldwide. ADMS offers its products through sponsoring organizations as well as directly to consumers.

Using the endorsement of sponsoring organizations, ADMS develops and executes co-branded marketing. ADMS works through brokers, agents, and third party administrators as well as directly with business partners, partnering with many of the leading financial institutions, associations, retailers, credit unions, dealerships, catalogers, and employer groups. Customized programs range from a full package of product development, administrative, technology, and marketing services, to providing only products or a single service such as product underwriting.

ADMS affiliated insurance underwriting companies have an extensive insurance product portfolio which includes whole and term life, accidental death, supplemental health and specialty products such as travel, student health, and credit life & disability. ADMS also offers a variety of membership and fee-based products and debt cancellation administration to complement its insurance products.

Transamerica Long Term Care offers various products and services aimed at meeting the long-term healthcare needs of its customers, an increasingly important concern as life expectancy rates in the United States continue to rise. Sales are focused on the affluent and mass affluent markets as well as the pre-retiree and retiree markets. Distribution includes independent brokerage and other AEGON USA companies and divisions selling to individuals, employer-sponsored groups and associations.

1.4.1.2 Individual savings and retirement

General description

AEGON USA offers a wide range of savings and retirement products, including mutual funds, fixed and variable annuities as well as investment advice.

Products

Fixed annuities

Fixed annuities include both deferred annuities and immediate annuities. A fixed deferred annuity exposes AEGON to interest rate risk and lapse risk. The insurer interest rate risk can be mitigated through product design, close asset/liability management and hedging, though the effects of policyholder behavior can never be fully mitigated. Surrender charges in early policy years serve as a deterrent to early duration lapses. Fixed annuities sold in the United States contain significant interest rate and longevity risks created by guaranteed annuity options and most also offer waiver of account value surrender charges upon the death of the insured. Immediate annuities contain interest rate risk and also longevity risk if annuity payments are life contingent.

In the United States, AEGON USA sells group and individual fixed annuities and retirement plan contracts to large financial institutions. Group fixed annuities are purchased with a single premium that funds the annuities for a group of employees. The single premium includes a fee for the administrative services which are provided by AEGON USA after the annuities are sold.

An immediate annuity is purchased with a single lump sum premium payment and the benefit payments generally begin within a year after the purchase. The benefit payment period can be for a fixed period, for as long as the beneficiary is alive, or a combination of the two. Some immediate annuities and payout options under deferred annuities may also offer the owner or beneficiaries the option to surrender the annuity to have access to the account value if needed for unexpected events.

Fixed deferred annuity contracts may be purchased on either a flexible or single premium basis. Deferred annuities are offered on a fixed interest crediting method or indexed basis. The policyholder can surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed deferred annuities have a specified crediting rate that can be reset periodically at the company s discretion after an initial guarantee period. Fixed deferred annuity contracts in the United States also offer guaranteed minimum surrender values and payout options. Upon maturity of the annuity, the policyholder can select payout options, including a lump sum payment or income for life, as well as payment for a specified period of time. Should the policyholder die prior to receiving the benefits of the policy, the beneficiary receives either an accumulated cash value death benefit or an enhanced death benefit in the event there are benefit riders attached to the base contract. A discontinued multi-strategy annuity allows a policyholder a choice of investment strategies to allocate funds and provides a cumulative minimum guaranteed interest rate. Early withdrawal by the policyholder of the cash value of the annuity is subject to surrender charges. These surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs.

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Minimum interest rate guarantees exist in all generations of deferred annuity products, as they are required by state non-forfeiture regulations. The majority of the in-force business has minimum interest rate guarantees of 3%. In general, products issued in 2003 and after offer 1.5% minimum interest rate guarantees. Equity indexed annuities offer additional returns that are indexed to S&P 500, with a minimum cash value equal to a percentage of the premium increased at a minimum rate that varies, and a cap on the return. The cap is reset periodically based on the cost of hedging instruments and is currently between 6.5% and 8%.

Besides the minimum interest rate guarantee, certain fixed deferred annuity products also offer a bailout provision. Under the bailout provision, if the crediting rate falls below the bailout rate, policyholders can surrender their contracts without incurring any surrender charges.

A structured settlement is a form of an immediate annuity. AEGON USA no longer issues these contracts, but continues to administer the closed block of business. These contracts were typically purchased as a result of a lawsuit or a claim and the injured party receives special tax treatment. Rather than paying the injured party a lump sum, the payments were structured as a lifetime annuity with mortality risk, a period certain annuity, or a combination of both.

Variable annuities

Variable annuities are sold to individuals and pension funds in the United States.

Variable annuities allow a policyholder to provide for the future on a tax-deferred basis and to participate in equity or bond market performance. Variable annuities allow a policyholder to select payout options designed to help meet the policyholder s need for income upon maturity, including lump sum payment or income for life or for a period of time.

Premiums paid on variable annuity contracts are invested in underlying funds chosen by the policyholder, including bond and equity funds. A fixed account is available on most products. In most products, the investment options are selected by a policyholder based on the policyholder s preferred level of risk. The assets and liabilities related to this product are legally segregated in separate accounts of the insurance company for the benefit of variable annuity policyholders. These separate accounts are classified as investments for the account of policyholders. Various riders are available on variable annuity contracts, providing guaranteed minimum death, maturity, withdrawal or income benefits.

The account value of variable annuities reflects the performance of the underlying funds. AEGON USA earns mortality and expense charges as well as various types of rider fees for providing guarantees and benefits. This category includes segregated fund products offered by AEGON Canada. Surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs.

A guaranteed minimum withdrawal benefit is offered on some variable annuity products AEGON USA either issued or assumed from a ceding company. This benefit guarantees a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or the life of the policyholder.

Certain variable insurance contracts also provide guaranteed minimum death benefits and guaranteed minimum income benefits. Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The guaranteed minimum income benefit feature provides for minimum payments if the policyholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the policyholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value. These benefits subject the company to equity market risk, since poor market performance can cause the guaranteed benefits to exceed the policyholder account value.

AEGON USA undertakes to address equity market risk through product design and by using hedging strategies. Variable products also contain a degree of interest rate risk and policyholder behavior risk, which are handled similarly to those in fixed annuities.

Retail mutual funds

AEGON s fee business comprises products that generate fee income by providing management, administrative or risk services related to off balance sheet assets (i.e., equity or bond funds, third party managed assets and collective investment trusts). Fee income is mainly sensitive to shareholder withdrawals and equity market movements.

AEGON s operations in the United States provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts and asset allocation (retirement planning) services.

The operations in the United States provide the fund manager oversight for the Transamerica Funds. AEGON USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on performance. The manager remains with

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the investment company and acts as a sub-adviser for AEGON USA s mutual funds. AEGON USA earns investment management fees on these investment products. AEGON USA also earns direct investment management fees through affiliated managers acting as sub-advisers, which are reported in the pensions and asset management line of business.

Sales and distribution

AEGON USA underwrites fixed and variable annuities through its various life insurance companies. Transamerica Capital Inc., (TCI), an affiliated broker-dealer, distributes fixed and variable annuities, mutual funds and single premium life products through major wirehouse firms, regional broker dealers, independent financial planners and the large bank network. TCI serves these distribution channels through company owned and external wholesalers.

InterSecurities Inc., part of AEGON USA, provides a range of financial and investment products, operating as a broker-dealer. These products include mutual funds, fixed and variable life insurance annuities and other securities.

1.4.1.3 Pensions and asset management

AEGON USA offers pensions and related products and services through a number of different outlets:

- Diversified Investment Advisors
- Transamerica Retirement Services
- Transamerica Retirement Management
- Transamerica Investment Management, LLC

Through these subsidiaries, AEGON USA provides a variety of individual and group pensions, as well as retirement planning, investment, administration and technical services.

In addition, AEGON USA covers a range of different pension plans, including:

- 401 (k)
- 403 (b)
- 457 (b)
- Non-qualified deferred compensation
- Money purchase

- Defined benefit
- Defined contribution
- Profit-sharing
- Single premium group annuity contracts

As elsewhere in the developed world, people in the United States are, generally, living longer, healthier lives. As a result, more people are managing their pension assets for longer periods of time. As the baby boomer generation those people born at the end or shortly after the Second World War enters retirement, a fundamental shift in the US pension market is occurring. Previously, people focused on asset accumulation . Now, with more people over the age of 65, there is a dual focus on both asset accumulation and on de-accumulation , in other words managing those assets productively and efficiently during retirement. Transamerica Retirement Management provides its customers with comprehensive life and retirement planning. Its services also include the retirement management account , a one-stop shop that allows customers easy and effective management of their investments, income needs and asset growth opportunities.

The USD 22 trillion asset management industry in the United States is considered by many to be in a state of significant change. Asset managers are facing increased pressure to provide products addressing the evolving needs of both institutional and retail investors ranging from increased pension liabilities and other risk-management strategies to the search for higher and more consistent returns. Transamerica Investment Management, LLC (TIM) offers a wide range of investment services and strategies to meet the changing needs of both retail and institutional clients, including separate accounts for foundations/endowments, corporate clients, public funds and union/Taft Hartley clients, and investment vehicles for the separately managed account and broker-dealer industry.

Products

Pensions include individual pension business, 401(k) and similar products, typically sponsored by or obtained through an employer. It comprises products in the accumulation phase as well as in the pay-out phase. In addition, asset management includes products and services provided to third parties.

At Diversified Investment Advisors, the emphasis is on choice. A wide array of investment options is offered to create a fully customized investment lineup for clients and a personalized retirement funding strategy for their retirement plan participants. Diversified Investment Advisors open architecture investment platform provides its clients access to a broad investment universe, including institutional and

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retail mutual funds, registered or non-registered variable annuities, or a collective investment trust. The investment options offered in each plan are selected by the client and/or the client s financial advisor.

Transamerica Retirement Services offers fully bundled and partially bundled retirement plan solutions to small and medium size employers. These plans are predominantly supported by a group variable annuity product, where plan assets are invested primarily in separate account investment choices, including bond and equity investment choices, and cash equivalent choices. A fixed account cash vehicle may also be available on most plans. The investment choices are selected by the client or by the client s financial advisor.

Single premium group annuities (Terminal Funding) are a non-participating group annuity product. This product is usually used for an insurance company takeover of a terminating defined benefit pension plan. The company receives a single deposit from the contractholder and in return guarantees the payment of benefits to participants. Usually these annuity payments are paid monthly for the life of the participant or participant and spouse, commencing immediately for retired participants or at some date in the future for deferred participants.

TIM s products include growth and value equity, fixed income, balanced, and convertible securities portfolios managed in various types of accounts for retail and institutional investors.

Sales and distribution

Diversified Investment Advisors provides a comprehensive and customized approach to retirement plan management, catering to the mid- to large-sized defined contribution, defined benefit and non qualified deferred compensation retirement plans market. Diversified Investment Advisors clients are generally organizations with 250 to 100,000 employees and between USD 10 million and USD 2 billion in retirement assets.

Transamerica Retirement Services serves more than 14,500 small to mid-sized companies across the United States. Transamerica Retirement Services offers a number of specialized services, including innovative plan design, a wide array of investment choices, extensive education programs and online investment guidance.

Transamerica Retirement Services is also a leading provider of single premium group annuities (Terminal Funding) in the United States, which is used by companies to decrease the liability of their defined benefit plans. This is a growing market segment as more employers look to reduce the cost and complexity of their pension liabilities, often driven by widespread economic and sector restructuring.

To help the millions of baby boomers who are approaching or transitioning into retirement, AEGON USA formed Transamerica Retirement Management, Inc. This new division, which adopted the consumer-facing brand known as SecurePath by Transamerica, has a fully operational team of salaried financial advisors that provide guidance and advice to any consumer who is looking for help with their investment strategies. Financial advisors from SecurePath by Transamerica also help pre-retirees to craft an individual retirement plan that is tailored to be as simple or as detailed as necessary, depending on the growth or income needs of the individual. IRA rollover products and services are also available.

TIM offers its extensive range of investment management services through multiple channels including retail mutual funds, investment consultants that serve foundations/endowments, public funds, union and corporate organizations; separately managed account platforms for many of the major broker-dealers and wealth management for high-net-worth private clients. TIM manages assets in mutual funds, funds of funds, retirement plans, separately managed accounts, institutional accounts, pension funds and variable insurance accounts.

1.4.1.4 Institutional

General description

AEGON USA has a significant position in the highly competitive and relatively mature US market for institutional products and offers a range of sophisticated and highly specialized financial products for leading institutions such as banks and pension and investment funds. AEGON USA first entered this market in the early 1980s, with a distinctive floating rate guaranteed investment contract. Since then, the company s institutional guaranteed products business has expanded significantly. AEGON USA now offers traditional fixed rate guaranteed investment contracts (GICs), funding agreements (FAs) and medium-term notes as well as fee-based products such as synthetic GICs, in which AEGON USA has a leading market position. On February 17, 2009, AEGON announced its plan to reduce its spread based balances by EUR 14 billion over the next two years to reduce capital requirements in the current stressed financial environment.

In addition, AEGON USA entered into structured product transactions, such as credit default swaps, synthetic collateralized debt obligations, affordable housing tax credit guarantees and hedge fund principal protection. New sales for AEGON USA s structured settlement annuity business were discontinued in 2003.

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AEGON USA also offers through the Extraordinary Markets division both fixed and variable products to the bank and corporate owned life insurance (BOLI-COLI) market in the United States. In early 2007, AEGON USA completed its acquisition of Clark Inc., a company specializing in the sale of bank and corporate owned life insurance. BOLI-COLI is marketed to institutional customers to help them fund long-term employee benefits such as executive compensation and post-retirement medical plans. AEGON USA has provided insurance products to the BOLI-COLI market since 1993.

Products

GICs and FAs

GICs are generally issued to tax qualified plans, while FAs and medium-term notes are typically issued to non-tax qualified institutional investors. These products are marketed through an internal sales force in the United States and Ireland.

These spread-based products are issued on a fixed-rate or floating-rate basis and provide the customer a guarantee of principal and a specified rate of return. Some spread products are issued by pledging, selling with the intent to repurchase, or lending investment securities that serve as collateral to these products. Practically all of the fixed-rate contracts are swapped to floating-rate via swap agreements and contracts issued in foreign currencies are swapped at issuance to US dollars to eliminate currency risk. Credited interest on floating-rate contracts predominately resets on a monthly basis to various market indices. The term of the contract can be fixed, generally from six months up to ten years, or it can have an indefinite maturity. Market-indexed contracts provide a return based on the market performance of a designated index, such as the S&P 500. Futures or swap contracts are used to hedge the market risk on market-indexed contracts and effectively convert such contracts to a floating-rate. Indeterminate-maturity contracts allow a customer to withdraw funds without a withdrawal penalty by providing the customer with a put option whereby the contract may be terminated with advance written notice of 12 months. Substantially all holders of indeterminate-maturity contracts have provided written notice in 2008 and these contracts are now classified as floating-rate, fixed maturity instruments. Other contracts offer benefit-responsive withdrawal rights to the customer, but these withdrawals cannot be for economic reasons. The account balances at December 31, 2008 consisted of fixed-rate, fixed-maturity contracts (41.5%); floating-rate, fixed-maturity contracts (57.4%); market-indexed, fixed-maturity contracts (0.3%), and indeterminate-maturity contracts (0.8%).

Medium-term notes

AEGON USA utilizes consolidated special purpose entities to issue medium-term notes that are backed by FAs. The proceeds of each note series are used to purchase a FA from an AEGON insurance company, which is used to secure that particular series of notes. The payment terms of any particular series substantially match the payment terms of the FA that secures that series. In addition, AEGON utilizes consolidated special purpose entities to issue commercial paper that is backed by the issuance of certain FAs.

AEGON Global Institutional Markets plc (AGIM) is domiciled in Ireland for the purpose of issuing medium-term notes to non-US investors and investing in a diversified portfolio of eligible assets with the proceeds of the issued notes. AEGON Financial Assurance Ireland Limited (AFA), another AEGON Ireland entity, provides a financial guarantee for the medium-term notes issued by AGIM.

Synthetic GICs

Synthetic GICs are sold in the United States primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans, as well as college savings plans. AEGON provides a synthetic GIC wrapper around fixed-income invested assets, which are owned by the plan and managed by the plan or a third party money manager hired by the plan. A synthetic GIC is typically issued with an evergreen maturity and is cancelable by the plan sponsor under certain conditions. Such a contract helps to reduce fluctuations in the value of the wrapped assets for plan participants and provides book value benefit-responsiveness in the event that qualified plan benefit requests exceed plan asset values. The periodically adjusted contract crediting rate is the means by which investment and benefit responsive experience is passed through to participants. In certain contracts, AEGON agrees to make advances to meet benefit payment needs and earns a market interest rate on these advances.

Structured products

AEGON USA s Structured Products group leverages existing strengths in investments, product structuring and risk management, as well as strong institutional relationships. Structured products are generally synthetic transactions that exist to provide guarantees for the client. In these transactions, AEGON USA undertakes contingent purchases/payments in return for a premium.

BOLI/COLI

Fixed and variable life insurance products are sold to banks and corporations as a method of funding employee benefit liabilities. The corporation insures key employees and is the owner and beneficiary of the policies.

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Sales and distribution

GICs, FAs and medium-term notes are marketed to institutional investors, such as pension funds, retirement plans, college savings plans, money market funds, municipalities, United States investors and non-US investors.

AEGON USA distributes these institutional products through a multi-channel strategy involving consultants, investment bankers, bidding agents, and its own internal sales force.

BOLI/COLI is distributed through a select number of niche brokers (including an affiliate, Clark) who specialize in sales and administration of the bank and corporate products.

1.4.1.5 Reinsurance

General description

The Transamerica Reinsurance Division, a unit of Transamerica Life Insurance Company, has provided reinsurance products and solutions to life insurance and financial services companies for forty years.

In the United States, Transamerica Reinsurance Division provides reinsurance solutions to primary insurers to support their risk management and redundant reserve financing needs. Transamerica Reinsurance provides mortality risk reinsurance for term, universal, variable universal and whole life portfolios. Reinsurance products include coinsurance as well as yearly renewable term and modified coinsurance agreements. Transamerica Reinsurance Division also offers traditional and modified coinsurance programs for the annuity market, as well as reinsurance of general account guarantees on variable annuity products.

Transamerica Reinsurance Division also provides reinsurance solutions in Europe, Asia Pacific and Latin America and offers risk and capital management solutions on a similar basis to those in the United States.

Products

The core life reinsurance offering, mortality risk transfer, is sold primarily through coinsurance and yearly renewable term arrangements. Under a coinsurance arrangement, reinsurance is ceded and assumed in the same form as the direct policy and the reinsurer shares proportionately in the product risks, including mortality, morbidity, persistency, investment, and capital requirements. Yearly renewable term reinsurance has premium rates that are not related to the original insurance product type and the ceding company only reinsures the mortality or morbidity risk.

Transamerica Reinsurance Division also assumes fixed annuity business on a coinsurance basis. Under a coinsurance arrangement, risk is ceded in the same form as the direct policy and the client company typically pays the reinsurer premiums equal to its share of the premiums that the client company receives on the underlying policies. The reinsurer will pay the client death or surrender benefits upon death or surrender of the policyholder and will reimburse the client specific allowances which are generally intended to cover its share of expenses.

Transamerica Reinsurance Division also reinsures fixed and variable annuity business on a modified coinsurance basis. Like coinsurance, modified coinsurance is ceded and assumed in the same form as the direct policy however, the reserves and assets backing the transaction remain with the ceding company in its accounts. In a typical variable annuity reinsurance transaction, Transamerica Reinsurance Division pays a ceding commission to finance the ceding company s policy acquisition costs and receives a reinsurance premium that is based upon the account value over the life of the business. The reinsurer thereby assumes the lapse risk on the variable annuities.

Transamerica Reinsurance Division assumes certain guaranteed minimum withdrawal, death and income benefits associated with variable annuity policies in exchange for a fee, typically expressed as a fixed percentage of the account value. With this type of cover, the reinsurer pays its share of the minimum benefits the policyholder s account value is unable to fund due to its underlying performance. Minimum underlying fund performance is a primary risk assumed by the reinsurer.

Transamerica Reinsurance Division also works with primary life insurers to develop, underwrite and administer specifically tailored products, as well as provide back-office services such as alternative underwriting and product development where some or all of the insurance risks in the products are reinsured.

Outside of the United States, Transamerica Reinsurance Division offers risk and capital management solutions on a similar basis to those in the United States. Primarily, this consists of risk premium (yearly renewable term) cover for mortality, accidental death, critical illness and group life and disability. Additionally, coinsurance structures are used to help finance acquisition costs as well as transferring other underwriting risks.

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Sales and distribution

Transamerica Reinsurance Division writes business through various AEGON companies in the United States and through its own affiliates in Bermuda and Ireland:

- Transamerica International Reinsurance Bermuda Ltd.
- Transamerica International Reinsurance Ireland Ltd.

Additionally Transamerica Reinsurance Division writes some of its European business through AEGON Levensverzekering N.V.

Outside the United States, Transamerica Reinsurance Division has established local offices in a number of different countries, including France, Spain, Japan, Taiwan, South Korea, Hong Kong, Mexico, Chile and Brazil. In these countries and many proximate countries Transamerica Reinsurance Division offers customized solutions, including coinsurance financing, product development with related quota share programs as well as traditional life reinsurance.

1.4.2 Overview Canada

1.4.2.1 Life and protection

Transamerica Life Canada (TLC) is AEGON Canada s principal operating company. It offers a variety of universal and traditional life insurance products, predominantly term and permanent life insurance, as well as accidental death and out-of-the-country medical cover, serving both individual and corporate customers.

1.4.2.2 Individual savings and retirement

General description

AEGON Canada s current product offerings comprise the following: segregated funds, mutual funds, segregated funds offered through strategic alliances with investment management companies, guaranteed investment accounts and single premium immediate annuities. The imaxx brand of mutual funds is offered by AEGON Fund Management (AFM). TLC offers all of AEGON Canada s other investment products.

Transamerica Life Canada offers term and tax-sheltered universal life insurance, segregated funds, guaranteed investment accounts, and single premium immediate annuities. AEGON Capital Management Inc. (ACM) was created in November 2001 from the spin-off of the investment management division of TLC. ACM s mandate is to develop products and services for the institutional, high net-worth individual, pension, and retail markets. AFM is the mutual fund subsidiary of AEGON Canada, which offers the imaxx brand of mutual funds as well as core fund portfolios featuring select investment managers from around the world to Canadian investors seeking customized portfolio solutions.

Products

Fixed annuity contracts in Canada have fixed rates for specified terms and contracts are sold as redeemable or non-redeemable. Most redeemable contracts are sold on the basis that a market value adjustment will apply for surrenders prior to maturity, while a small number use a fixed surrender charge. Contracts sold on a redeemable basis provide a lower rate of interest than the non-redeemable contracts. There are no minimum interest rate guarantees on these products.

In Canada, variable products sold are known as segregated funds. Segregated funds are similar to variable annuities, except that they include a capital protection guarantee for mortality and maturity benefits (guaranteed minimum accumulation benefits).

In Canada, investment management fees are earned by providing portfolio management and investment advisory services.

1.5 Competition

AEGON USA faces significant competition in all of its businesses. Its competitors include other large and highly rated insurance carriers, as well as certain banks, securities brokerage firms, investment advisors, and other financial intermediaries marketing insurance products, annuities, and mutual funds. Some of these competitors have greater financial strength and resources and have penetrated more markets. Many of AEGON USA s competitors in the mutual fund industry are larger, have been established for a longer period of time, offer less expensive products, have deeper penetration in key distribution channels, and have more resources than AEGON USA.

The United States business units that deliver traditional life products focus on a variety of markets, including the middle, upper-middle and affluent markets. The units face significant competition from a broad range of competitors including Genworth, Pacific Life, Lincoln National, John Hancock, Sun Life, Metropolitan Life, Prudential, AIG, and ING. The result is a highly competitive marketplace and increasing commoditization in many product categories. In this kind of environment, AEGON USA believes the best and most enduring competitive advantages are relationships and service.

TLIC s Bermuda company, Transamerica Life (Bermuda) Ltd. (TLB), has branches in Hong Kong and Singapore, where the focus is on high-net-worth individuals. The recent influx of new entrants in the market has increased TLB s competition in this segment. However, TLB believes there is significant opportunity in this region and is well positioned for growth.

AEGON USA markets variable universal life, mutual funds, and variable annuities to middle-income clients with equity investment objectives. Sales are often driven by the competitiveness of the living benefits offered by our competitors, with most product development focusing on guaranteed lifetime withdrawal benefits, which guarantee lifetime withdrawals of a certain amount under certain conditions.

AEGON USA s primary competitors in the variable universal life market are IDS, Hartford Financial, John Hancock, Pacific Life, Metropolitan Life, Nationwide, Lincoln National, and AXA/Equitable.

The top five competitors in the mutual fund market are generally considered to be: American Funds, Franklin Templeton; Oppenheimer; Putnam; and Fidelity.

AEGON USA has built long-term relationships with many institutions, and these relationships have enabled AEGON USA to offer many product lines such as fixed annuities, variable annuities, life insurance, mutual funds, and 401(k) products through these institutions. Most fixed annuity sales occur at banks. AEGON USA s primary competitors for fixed annuity sales are AIG, Allstate, New York Life, Principal Financial, Riversource, Jackson National, Western-Southern, and Symetra Financial.

AEGON USA competes in the variable annuity marketplace by maintaining an effective wholesaling force, focusing on strategic business relationships and by developing products with features, benefits and pricing that it believes are attractive in that market place. The market has shown a continued interest in guaranteed lifetime withdrawal products, and there is a strong competition among providers. AEGON USA s primary competitors in the variable annuity market are Hartford Financial, AXA/Equitable, Metropolitan Life, John Hancock, Prudential/American Skandia, Lincoln National, ING, and Pacific Life.

In the institutional product market, AEGON USA s competitors include insurance companies, domestic and foreign banks, and investment advisors. Customers include investment managers, GIC managers, 401(k) and 457 plans, pension plans, 529 college savings plans, money market funds, municipal debt issuers, US and international banks, and other capital market sectors.

AEGON USA has been a leading issuer of synthetic GICs (source: reports from LIMRA International and the Stable Value Investment Association s Stable Value and Funding Agreement Products, 2008 First and Second Quarter Sales, Landmark Strategies 2007 Stable Value Wrap Issuance Survey; AEGON USA s Market Research). AEGON USA pioneered the use of synthetic GICs in 1991 and competes against banks such as Bank of America, JP Morgan, Natixis, Rabobank and State Street Bank as well as insurance companies such as AIG, ING and Principal Financial. AEGON USA has been among the top 10 traditional GIC providers (source: reports from LIMRA International and the Stable Value Investment Association s Stable Value and Funding Agreement Products, 2008 First and Second Quarter Sales; AEGON USA s Market Research). Other insurers in the traditional GIC segment include Hartford Financial, Metropolitan Life, Principal Financial, Prudential Financial, and New York Life (source: reports from LIMRA International and the Stable Value Investment Association, Stable Value and Funding Agreement Products, 2008 First and Second Quarter Sales, AEGON USA s Market Research).

Funding agreement-backed medium-term notes have been marketed by AEGON in the United States and abroad. Monumental Life Insurance Company, the insurance company that issued the funding agreements backing these notes, has been among the top 10 issuers in this segment (source: Standard & Poor s 2008 Funding-Agreement Backed Note Issuance: A Tale of Two Half-Years , publication date January 16, 2009).

AIG, Allstate, New York Life, John Hancock, Metropolitan Life, Principal Financial, and Pacific Life have also had leading positions.

AEGON USA had a leadership position among issuers of floating rate funding agreements sold directly to money market funds (source: reports from LIMRA International and the Stable Value Investment Association s Stable Value and Funding Agreement Products, 2008 First and Second Quarter Sales; company SEC filings; AEGON USA s Market Research). Other leading competitors in this market were Genworth Financial, ING, Metropolitan Life, and New York Life.

AEGON USA manages a book of approximately USD 5.05 billion (book value) in funding agreements/investment contracts issued to municipal debt issuers, and has been a top 10 provider in this segment. The leading competitors in the municipal GIC market were AIG, Bayerische Landesbank, Citibank, FSA, MBIA and Trinity Funding (source: reports from LIMRA International and the Stable Value Investment Association s Stable Value and Funding Agreement Products, 2008 First and Second Quarter Sales; company SEC filings; AEGON USA s Market Research).

Transamerica Reinsurance Division s major life reinsurance competitors vary based upon solutions and geographical markets. The main competitors are Reinsurance Group of America, Swiss Re, Generali USA Life Re, and Munich Re.

Within the United States, conditions continue to favor large, financially strong reinsurers such as Transamerica Reinsurance Division that can gain access to capital markets for reserve credit collateral and provide full-service solutions. Recent new entrants have had limited influence on the market.

The pension market continues to evolve rapidly and is facing growing regulatory compliance pressures, continuing demand for technological innovation, pricing pressures, and provider consolidation. AEGON USA s ability to achieve greater economies of scale in operations will be assisted if growth in key market segments continues, technology improves, and if process management increases efficiency.

In the defined contribution market, AEGON USA s main competitors are Fidelity, T. Rowe Price, Vanguard, Schwab, Principal Financial, Mass Mutual and New York Life. AEGON USA s main competitors in the defined benefit segment are, Mass Mutual, New York Life, Principal Financial, and Prudential. In the small business retirement plan segment and the multiple employer plan segment, AEGON USA s main competitors are Principal Financial, John Hancock, American Funds, Hartford Financial, Fidelity, and ING. In the single premium group annuity market, AEGON USA s main competitors are Hartford Financial, John Hancock, Metropolitan Life, and Principal Financial.

Canadian life insurance marketplace

The top ten companies in Canada account for 89% of the life insurance sales (source: LIMRA s Canadian Individual Life Insurance Sales Third Quarter 2008, issued November 2008). Transamerica Life Canada's primary competitors in Canada are; Manulife Financial, Sun Life Financial, Industrial-Alliance, Canada Life, RBC Life, Empire Life, Equitable, AIG and Desjardins.

Transamerica Life Canada ranks seventh in overall individual life insurance sales (new business premiums) with a market share of 7.9% down from 8.6% at December 31, 2007. Transamerica Life Canada ranks fifth for universal life sales representing 11.5% of the market and sixth for term sales representing 6.2% of the market (source: LIMRA 's Canadian Individual Life Insurance Sales - Third Quarter 2008, issued November 2008).

1.6 Regulation

AEGON USA

The AEGON USA insurance companies are subject to regulation and supervision in the states in which they transact business. Supervisory agencies in each of those states have broad powers to do any of the following: grant or revoke licenses to transact business, regulate trade and marketing practices, license agents, approve policy forms and certain premium rates, set reserve and capital requirements, determine the form and content of required financial reports, examine the insurance companies, prescribe the type and amount of investments permitted, levy fines and seek restitution for failure to comply with applicable regulations. The international businesses of AEGON USA are governed by the laws and regulations of the countries in which they transact business.

Insurance companies are subject to a mandatory audit every three to five years by their domestic regulatory authorities and every year by their independent auditors. In addition, examinations by non-domestic state insurance departments are conducted, both on a targeted and random or cyclical basis. Some State Attorneys General have also commenced investigations into certain insurers business practices. Within the insurance industry, substantial liability has been incurred by insurance companies based on their past sales and marketing practices. AEGON USA has focused and continues to focus on these compliance issues, and costs can increase as a result of these activities.

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States have adopted risk-based capital (RBC) standards for life insurance companies, established by the National Association of Insurance Commissioners (NAIC). The RBC Model Act (Model Act) provides for various actions should an insurer s adjusted capital, based on statutory accounting principles, fall below certain prescribed levels (defined in terms of its risk-based capital). The adjusted capital levels of the AEGON USA insurance companies currently exceed all of the regulatory action levels as defined by the Model Act. Any modifications of these adjusted capital levels by the regulators or rating agency capital models may impact AEGON USA.

US federal and state privacy laws and regulations impose restrictions on financial institutions use and disclosure of customer information. Legislation has been introduced in the US Congress, and in the states from time to time that would either impose additional restrictions on the use and disclosure of customer information or would require financial institutions to enhance the security of personal information and impose new obligations in the event of data security breaches. States are also considering and the US Congress may again consider legislation that would restrict the ability of insurers to underwrite based in whole or in part on specified risks or practices such as genetic testing. These laws, regulations and legislation, if enacted, could impact AEGON s ability to market or underwrite its products or otherwise limit the nature or scope of AEGON s insurance and financial services operations in the United States.

Federal law and the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC) rules prohibit telephone solicitations to customers who have placed their telephone numbers on the National Do-Not-Call Registry. Additionally, proposals to place restrictions on direct mail are considered by the US Congress and the States from time to time. These restrictions adversely impact AEGON USA company telemarketing efforts and new proposals, if enacted, will likely directly impact AEGON USA company direct mail efforts.

Insurance holding company statutes and the regulations of each insurer s domiciliary state in the United States impose various limitations on investments in affiliates and require prior approval of the payment of dividends above certain threshold levels by the registered insurer to AEGON or certain of its affiliates.

Some of AEGON USA s investment advisory activities are subject to federal and state securities laws and regulations. Mutual Funds managed, issued and distributed by AEGON USA companies are registered under the Securities Act of 1933, as amended (the Securities Act), and the Investment Company Act of 1940 (the Investment Company Act). With the exception of its investment accounts which fund private placement investment options that are exempt from registration, or support fixed rate investment options that are also exempt from registration, all of AEGON USA s separate investment accounts that fund retail variable annuity contracts and retail variable life insurance products issued by AEGON USA companies are registered both under the Securities Act and the Investment Company Act. Institutional products such as group annuity contracts, guaranteed investment contracts, and funding agreements are sold to tax qualified pension plans or to other sophisticated investors and are exempt from registration under both acts.

The Securities Exchange Commission (SEC) has implemented a rule (Rule 151A) under the Securities Act that requires any annuity to be registered under the Securities Act that makes reference to securities or a securities index and is likely to generate performance greater than the guaranteed amount under the contract. Management expects Rule 151A to significantly complicate and increase the cost of equity indexed annuities, which will likely have an impact on sales of indexed life insurance products in the future.

Some of the AEGON USA companies are registered as broker-dealers with the SEC under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act) and are regulated by the Financial Industry Regulatory Authority (FINRA , formerly known as the National Association of Securities Dealers, Inc. or NASD). A number of AEGON USA companies are also registered as investment advisors under the Investment Advisers Act of 1940. AEGON USA insurance companies and other subsidiaries also own or manage other investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other requirements of those laws, such as anti-fraud provisions and the terms of applicable exemptions.

The financial services industry, which includes businesses engaged in issuing, administering, and selling variable insurance products, mutual funds, and other securities, as well as broker-dealers, has come under heightened scrutiny and increased regulation in various jurisdictions. Such scrutiny and regulations have included matters relating to so-called producer compensation arrangements, selling practices, revenue sharing, and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. AEGON USA companies, like other businesses in the financial services industry, have received inquiries, examinations, and requests for information from regulators and others relating to certain AEGON USA companies historical and current practices with respect to these and other matters. Some of those inquiries have led to investigations, which remain open or have resulted in fines, corrective actions or restitution. AEGON USA companies continue to cooperate with these regulatory agencies. In certain instances, AEGON companies modified business practices in response to those inquiries or findings. Certain AEGON companies have paid or been informed that the regulators may seek restitution, fines or other monetary penalties or changes in the way we conduct our business. The impact of fines or other monetary penalties is not expected to have a material impact on AEGON s financial position, net income or cash flow. Since 2004, there has been an increase in litigation in the industry, legislation, new regulations, and regulatory initiatives aimed at curbing alleged abuse of annuity sales to seniors. As many of the estimated 77 million baby boomers have or will soon reach the age of sixty, the industry will likely see an increase in senior issues presented in various legal arenas. In addition, certain industry practices in respect of market conduct have been the subject of investigations by various state regulators. With the significant decline in financial markets in late 2008 and early 2009, management expects there will be further regulation and litigation which could increase costs and limit AEGON s ability to operate.

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Some of AEGON USA companies offer products and services to pension and welfare benefit plans that are subject to the federal Employment Retirement Income Security Act (ERISA). ERISA is administered by the US Department of Labor (DOL) and Internal Revenue Service (IRS). Accordingly, the DOL and IRS have jurisdiction to regulate the products and services sold by these AEGON USA businesses. DOL has issued regulations requiring increased fee disclosure from defined contribution plan service providers and to plan participants. In addition, legislation has been introduced in Congress that would mandate additional defined contribution plan fee disclosure. Enactment of certain of this legislation could increase the cost and administrative burdens of defined contribution plan administration.

In an attempt to increase the number of workers covered by a retirement savings plan, several states have or are considering legislation that would permit non-governmental workers to join the state government workers retirement plan or a similar governmental plan. If enacted, this legislation could impact the products and services sold by some of AEGON USA companies to private employers in those states.

Transamerica Reinsurance Division s reinsurance activities are subject to laws and regulations including those related to credit for reinsurance. Most states have implemented a Life and Health Reinsurance Agreement regulation, which specifies the time frames for completion of contracts and defines which risks must pass from cedant to reinsurer to constitute reinsurance. Transamerica International Re (Bermuda) Ltd. is subject to the laws and regulations governing the reinsurance business in Bermuda, as overseen by the Bermuda Monetary Authority.

Transamerica International Reinsurance Ireland Limited is subject to the laws and regulations governing the reinsurance business in Ireland, as overseen by the Irish Financial Services Regulatory Authority. AEGON Levensverzekering N.V. is subject to the laws and regulations governing insurance in The Netherlands as overseen by the Dutch Central Bank.

Although the insurance business is regulated on the state level, the US federal tax preferences of life insurance and annuity products are governed by the US federal tax code. Proposals to remove or decrease the value of these tax preferences, both in and of themselves and relative to other investment vehicles, have sometimes been debated in the US Congress. This risk is heightened when Congress seeks additional revenue, either to address widening budget deficits resulting from increased spending by the US government in response to the current economic crisis, or as in the past two years, the US Congress follows the pay as you go, or PAYGO, system, which requires any increases in program spending to be offset with increases in taxes or cuts in other programs. In addition, any consideration of either proposal to extend any of the individual tax cuts first enacted in 2001 or broad tax reform in this Congress will likely increase the pressure to eliminate certain tax preferences or incentives for insurance.

Moreover, legislative proposals which impose restrictions on executive compensation by companies receiving federal funds under US government programs designed to stabilize the financial markets, as well as proposals restricting employment-based savings plans, including restrictions on nonqualified deferred compensation, adversely impacts the sale of life insurance products used in funding those plans and their attractiveness relative to other investment products.

There also have been legislative proposals in the US Congress from time to time that target foreign owned companies, such as a proposal that would deny US shareholders of such a company the preferential tax rate on dividends in certain circumstances. To the extent that any of these proposals would directly impact AEGON USA, they could adversely impact either US shareholders or investment in the US.

The current economic crisis has resulted in calls for regulatory reform of the financial services industry, both in the U.S. and world wide. The U.S. federal government may introduce a systemic risk regulator to oversee large financial services conglomerates. In addition, Congress is expected to consider financial services regulatory reform, and as part of this reform, a federal regulator for insurance. AEGON USA and many other insurers have actively supported an optional federal insurance regulator in the name of efficiency and in order to represent the insurance industry in international matters. However, the nature of a U.S. federal insurance regulator and regulatory reform proposals in general have yet to be determined and may result in additional regulatory burden and expense for insurers. Depending on federal legislation changes, regulation of the insurance industry by the States may be broadly redefined or limited, resulting in a yet unknown impact on product and service pricing availability.

Pension reform legislation enacted in 2006 both increases funding obligations of defined benefit plans and creates opportunities for increased savings through defined contribution plans and other savings vehicles, as well as group annuity products into which an employer or plan sponsor can transfer defined benefit plan liabilities to guarantee benefits of the pension plan s retired, active, or deferred vested participants. While some relief from these increased funding obligations has been provided recently, such relief is either temporary or in management s view is insufficient given the current economic crisis. AEGON USA companies administer and provide both asset management services and products used to fund defined contribution plans, 529 plans and other savings vehicles impacted by the pension reform legislation. AEGON USA companies also provide plans used to administer benefits distributed upon termination of defined benefit plans.

In the past year the DOL finalized rules prescribing additional annual disclosure of plan service provider compensation and disclosure of plan fees to defined contribution plan participants. In addition, the DOL also issued regulations clarifying the Pension reform legislation exemption for investment advice to qualified plan participants. Management believes that additional reforms may considered

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during 2009 including the delivery of investment advice to plan participants, as well as increased fee disclosure, increased auto-enrollment, including low-cost index funds as investment options, reduced vesting periods and improved portability of 401(k) accounts, all in an effort to preserve and strengthen the current employer plan system. The likelihood of enactment of some of these reforms is not yet known.

Any proposals that seek to either restrict fees and services to employer plans or change the manner in which AEGON USA companies may charge for such services inconsistent with business practices, will adversely impact the AEGON companies that provide administration and investment services and products to employment based plans.

Many other federal tax laws affect the business in a variety of ways. Legislative proposals to repeal, substantially reform or permanently repeal the estate tax are being considered, but are not likely to be enacted in 2009. Under existing law, the federal estate, gift, and generation skipping taxes are temporarily repealed in 2011. AEGON believes a permanent repeal of the federal estate tax would have an adverse impact on sales and surrenders of life insurance in connection with estate planning; however, failure to permanently reform the estate tax to avoid its total repeal in 2011 and return to pre-2001 rates creates a lack of certainty that adversely impacts efficient estate planning.

AEGON Canada

Transamerica Life Canada (TLC) is incorporated under the Canadian Business Corporation Act and is regulated under the Insurance Companies Act of Canada. In addition, TLC is subject to the laws, regulations and insurance commissions of each of Canada s ten provinces. The laws of these jurisdictions generally establish supervisory agencies with broad administrative powers that include the following: granting and revoking licenses to transact business, regulating trade practices, licensing agents, establishing reserve requirements, determining permitted investments and establishing minimum levels of capital. TLC s ability to continue to conduct its insurance business depends upon the maintenance of its licenses at both the federal and provincial levels. The primary regulator for TLC is the Office of the Superintendent of Financial Institutions. TLC is required under the Insurance Companies Act of Canada to have at least seven directors, 50% of whom must be residents of Canada and no more than two-thirds of whom can be affiliated with TLC.

The life insurance and securities operations of AEGON Canada are also governed by policy statements and guidelines established by industry associations such as the Canadian Life & Health Insurance Association, Mutual Fund Dealers Association, and Investment Funds Institute of Canada.

1.7 Asset liability management

The AEGON USA insurance companies are primarily subject to regulation under the laws of the states in which they are domiciled. Each state s laws prescribe the nature, quality, and percentage of various types of investments that may be made by the companies. Such laws generally permit investments in government obligations, corporate debt, preferred and common stock, real estate, and mortgage loans. Limits are generally placed on other classes of investments.

The key investment strategy for traditional insurance-linked portfolios is asset/liability management, whereby predominately high-quality investment assets are matched in an optimal way to the corresponding insurance liability. This strategy takes into account currency, yield and maturity characteristics as well as asset diversification and quality considerations on the one hand and the policyholders guaranteed or reasonably expected excess interest sharing on the other hand. Investment-grade fixed income securities are the main vehicle for asset/liability management, and AEGON USA s investment personnel are highly skilled and experienced in these investments.

The AEGON USA companies manage their asset/liability matching through the work of several committees. These committees review strategies, define risk measures, define and review asset/liability management studies, examine risk-hedging techniques, including the use of derivatives, and analyze the potential use of new asset classes. Cash flow testing analysis is performed using computer simulations, which model assets and liabilities under stochastically projected interest rate scenarios and commonly used stress-test interest rate scenarios. Based on the results of these computer simulations, the investment portfolio is structured to maintain a desired investment spread between the yield on the portfolio assets and the rate credited on the policy liabilities. Interest rate scenario testing is a continual process and the analysis of the expected values and variability for three critical risk measures (cash flows, present value of profits, and interest rate spreads) forms the foundation for modifying investment strategies, adjusting asset duration and mix, and exploring hedging opportunities. On the liability side, AEGON USA has some offsetting risks; some liabilities perform better in rising interest rate environments while others tend to perform well in falling interest rate environments. The amount of offset can vary depending on the absolute level of interest rates and the magnitude and timing of interest rate changes, but it generally provides some level of diversification. On the asset side, hedging instruments are continuously studied to determine whether their cost is commensurate to the risk reduction they offer.

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1.8 Reinsurance ceded

1.8.1 United States

AEGON USA reinsures part of its life insurance exposure with third-party reinsurers under traditional indemnity, quota share reinsurance treaties, as well as, less frequently, excess-of-loss contracts. AEGON USA s reinsurance strategy is in line with typical industry practice.

These reinsurance contracts are designed to diversify AEGON USA s overall risk and limit the maximum loss on risks that exceed policy retention levels. The maximum retention limits vary by product and class of risk, but generally fluctuate between USD 3,000 and USD 3 million per life insured.

AEGON USA remains contingently liable with respect to the amounts ceded should the reinsurance company fail to meet its obligations. To minimize its exposure to such defaults, AEGON USA regularly monitors the creditworthiness of its reinsurers. AEGON USA has experienced no material reinsurance recoverability problems in recent years. Where appropriate, the company arranges additional cover through letters of credit or trust agreements. For certain agreements, funds are withheld for investment by the ceding company.

The AEGON USA insurance companies also enter into contracts with company-affiliated reinsurers, both within the United States and overseas, including Transamerica Reinsurance Division, a unit of Transamerica Life Insurance Company. These contracts have been excluded from the company s consolidated financial statements, except in certain circumstances that include profit-sharing arrangements.

1.8.2 Canada

In the normal course of business, AEGON Canada reinsures part of its mortality and morbidity risk with outside reinsurance companies. The maximum life insurance exposure retained is CAD 1.25 million per life insured.

Ceding reinsurance does not remove AEGON Canada s liability as the primary insurer. AEGON Canada could incur losses should reinsurance companies fail to meet their obligations. To minimize its exposure to the risk of such defaults, AEGON Canada regularly monitors the creditworthiness of its reinsurers. AEGON Canada only contracts business with reinsurance companies that are registered with Canada s Office of the Superintendent of Financial Institutions.

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2. The Netherlands

2.1. Background

AEGON was created by the merger of two Dutch insurance companies AGO and Ennia in 1983. AEGON s history in the Netherlands, however, goes back more than 150 years. Today, AEGON The Netherlands[1] is one of the country s leading providers of life insurance and pensions, with millions of customers and more than 6,200 employees. The fully owned Unirobe Meeùs Group is one of the largest intermediaries in the Netherlands. AEGON The Netherlands has its headquarters in The Hague, but also has offices in Leeuwarden, Groningen and Nieuwegein.

2.2. Organizational structure

AEGON The Netherlands operates through a number of well-known brands, including TKP Pensioen, OPTAS, Meeùs and Unirobe. In addition, AEGON itself is one of the most widely recognized brand names in the Dutch financial services sector (source Tracking Report Motivaction).

AEGON The Netherlands primary subsidiaries are:

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON NabestaandenZorg N.V.

AEGON Spaarkas N.V.

AEGON Bank N.V.

Unirobe Meeùs Groep B.V.

TKP Pensioen B.V.

Nedasco B.V.

OPTAS N.V.

OPTAS Pensioenen N.V.

OPTAS Leven N.V.

OPTAS Schade N.V.

The business organization of AEGON The Netherlands is based on five service centers (SC s) and three sales organizations (SO s).

The SC s, which are responsible for all back office activities, are the following:

- SC Pensions
- SC Life insurance
- SC Non-life insurance
- SC Banking
- SC Asset management

In recent years, AEGON The Netherlands has taken significant steps to reorganize its businesses as part of broader efforts to improve overall efficiency and customer service. In 2003, the company combined its various business units into a single, more centralized structure. By bringing product knowledge, administration, IT and other back office support under one roof, AEGON The Netherlands has created a more effective and better structured organization. Since 2006 a process of centralizing staff functions including HRM, Marketing and Finance has been effected in order to standardize processes and improve efficiency.

AEGON The Netherlands is present in five lines of business:

- Life and protection
- Individual savings and retirement products
- Pensions and asset management
- Distribution
- General insurance

[1] Throughout this report, AEGON The Netherlands refers to all AEGON companies operating in the Netherlands.

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2.3. Overview sales and distribution channels

AEGON The Netherlands operates through three sales organizations, each focusing on a separate segment of the Dutch market. Corporate & Institutional Clients serves large corporations and financial institutions such as company and industry pension funds. AEGON Bank Bemiddeling sells mainly to individuals both directly and through tied agents. Lastly, AEGON Intermediary focuses on independent agents and retail sales organizations in the Netherlands.

2.4. Overview lines of business

2.4.1 Life and protection

General description

AEGON The Netherlands provides a range of life insurance and personal protection products and services, including traditional, universal and term life, funeral insurance as well as accident and health cover. Life and protection is AEGON The Netherlands one of the most important line of business, accounting for 46 percent of the company s overall operating earnings before tax in 2008.

Products

The life products of AEGON The Netherlands consist largely of endowment insurance and annuity insurance.

Endowment insurance

This category includes various products that accumulate a cash value. Premiums are paid at inception or over the term of the contract.

The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product.

Minimum interest guarantees exist for all generations of accumulation products written, except for universal life type products for which premiums are invested solely in equity funds. Older generations contain a 4% guarantee; in recent years the guarantee has decreased to 3%.

There are different kinds of profit sharing arrangements. Bonuses are either paid in cash (mainly in pension business, as discussed in the following section) or used to increase the sum assured. For one common form of profit sharing, the bonus levels are set by reference to external indices that are based on predefined portfolios of Dutch government bonds. The bonds included in the portfolio have different remaining durations and interest rates and together are considered an approximation of the long-term rate of return on Dutch high quality financial investments. Another common form of profit sharing is via interest rebates, whereby policyholders receive a discount on single premium business which reflects the expectation that the actual rate of return on the contract will exceed the minimum interest guarantee used to determine the premiums and sums assured. Here too, the expected actual rate of return is based on a portfolio of Dutch government bonds.

Term and whole life insurance

Term life insurance pays out death benefits when the insured dies during the term of the contract. Whole life insurance pays out death benefits when the insured dies, regardless of the timing of this event. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted on request of the insured. In principle, term life insurance policies will not include profit sharing arrangements. Part of the portfolio of whole life insurance has profit-sharing features, which are based on external indices or return of related assets.

Annuity insurance

This category includes products in accumulation phase and in payout phase. Payout commences at a date determined in the policy and usually continues until death of the insured or the beneficiary. Premiums are paid at inception of the policy or during the accumulation phase of the policy. The contracts contain minimum guarantees of 3% or 4%.

Interest rebates are given on both single and regular premium annuity insurance and may be based on a portfolio of Dutch government bonds, although other calculation bases are also applied. There are also profit sharing schemes set by reference to external indices that are based on predefined portfolios of Dutch government bonds.

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Tontine plans

Tontine plans in the Netherlands are linked endowment savings contracts with a specific bonus structure. Policyholders can choose from several AEGON funds to invest premiums paid. The main characteristic of a tontine system is that when the policyholder dies, the balance is not paid out to the policyholder s estate, but is distributed at the end of the year to the surviving policyholders of the specific series to which the deceased policyholder belonged. In general, a new series starts at the beginning of each calendar year, but there are also open ended tontine plans in the portfolio. When the policyholder dies before maturity, AEGON The Netherlands pays a death benefit equal to the premiums paid accumulated at a 4% compound interest, subject to a minimum of 110% of the fund value during the first half of the contract term.

Variable unit linked products

In the Netherlands, variable unit linked products are sold. These products have a minimum benefit guarantee if premiums are invested in certain funds. The initial guarantee period is 10 years. The 10-year period may be reset at the policyholder s option to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio (MER) charged to the funds is not guaranteed and can be increased at management s discretion.

Accident and health insurance

AEGON The Netherlands offers sick leave products to employers that cover the sick leave payments to employees that are not covered by social security and where the employers bear the risk. Over the past several years, the Dutch government has gradually shifted responsibility for sick leave and workers disability from the state to the private sector. This has helped stimulate demand for private health insurance. In 2006, AEGON The Netherlands introduced a new product providing companies with additional employee disability cover.

Sales and distribution

AEGON s traditional life insurance is sold primarily by AEGON Intermediary and AEGON Bank Bemiddeling. The vast majority are standardized financial products.

Accident and health products are sold mainly through AEGON Intermediary, though Corporate & Institutional Clients also provides products for larger corporations in the Netherlands.

2.4.2 Individual savings and retirement products

General description

In addition to life insurance and pensions, AEGON The Netherlands also provides a variety of individual savings and retirement products. In 2008, these products did contribute an amount of EUR (14) million to AEGON The Netherlands overall pre-tax operating earnings.

AEGON discontinued selling security lease products in early 2003. At the end of 2005, the Dutch government decided to reform its retirement legislation. As part of a wider policy of reducing state benefits, the government ended a pre-retirement savings plan, known as VUT, and replaced it with Levensloop or Life cycle .

Products

Saving products are only sold by AEGON The Netherlands and include savings accounts and investment contracts. Both products generate investment-spread income for AEGON. Savings accounts retain flexibility to withdraw cash with limited restrictions. Banking products also include investment products that offer index-linked returns and generate fee income on the performance of the investments.

Levensloop allows savers to put aside a certain amount each year, tax free, either to fund their retirement, retire early, or even finance a break in their careers. Many companies in the Netherlands have decided to include Levensloop in their overall employee benefit packages.

Sales and distribution

Individual savings and retirement products are sold through all three sales organizations. AEGON Intermediary and AEGON Bank Bemiddeling sell the majority of the contracts. The Levensloop contracts that large organizations can offer to their employees are sold through our Corporate & Institutional Clients sales organization.

2.4.3 Pensions and asset management

General description

Pensions and asset management is of the most important lines of business of AEGON The Netherlands . In 2008, it accounted for 52 percent of the AEGON The Netherlands total operating earnings before tax.

Products

For the majority of the company/industry pensions funds and some large companies, AEGON The Netherlands provides full service pension solutions and also administration-only services.

The full service pension products for account of policyholders are separate account group contracts with or without guarantees.

Separate account group contracts of AEGON The Netherlands are large group contracts that have an individually determined asset investment underlying the pension contract. The contracts are written with and without a guarantee. The guarantee given is that the profit sharing is the minimum of the technical interest of either 3% or 4% or the realized return (on an amortized cost basis). If there is a negative profit sharing, the minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses during the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premium tariffs are fixed over this period.

Separate account guaranteed group contracts provide a guarantee on the benefits paid. The longevity risk therefore lies with AEGON The Netherlands. Non-guaranteed separate account group contracts provide little guarantee on the benefits. AEGON The Netherlands has the option not to renew a contract at the end of the contract period.

For most large companies and some small and medium-sized enterprises, AEGON The Netherlands provides defined benefit products for which profit sharing is based upon a pre-defined benchmark. Benefits are guaranteed. Premium tariffs are fixed over the contract period and the longevity risk lies with AEGON The Netherlands. Minimum interest guarantees are given for nominal benefits, based on 3% actuarial interest (4% on policies sold before the end of 1999).

For small and medium-sized enterprises, AEGON The Netherlands provides pensions that are defined contribution products with single and recurring premiums. Profit sharing is based on investment returns on specified funds. Premium tariffs are not fixed over the contract period. Minimum interest guarantees are given for nominal benefits, based on 0% or 3% actuarial interest (4% on policies sold before the end of 1999).

Both AEGON Asset Management (AEAM) and TKP Investments (TKPI, a 100% subsidiary of TKP Pensioen) provide asset management products with AEAM having strengths in in-house managed fixed income and Asian equities and TKPI providing fiduciary management using multi-manager investment pools. AEAM is also the main asset manager for AEGON The Netherlands insurance activities. Both AEAM and TKPI are able to tailor products to customers needs, including hedging of liability risks.

Sales and distribution

Most of AEGON The Netherlands pensions are sold through two sales organizations: Corporate and Institutional Clients and AEGON Intermediary. Customers vary from individuals to company and industry pension funds and large, medium-sized and small corporations. AEGON The Netherlands is one of the country s leading providers of pensions.

For the majority of company and industry customers, AEGON The Netherlands provides a full range of pension products and services. In addition, TKP Pensioen specializes in pension administration.

Most of AEGON The Netherlands asset management products are channeled through the Corporate & Institutional Clients sales organization.

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2.4.4 Distribution

AEGON The Netherlands offers financial advice and is involved in intercession activities in real estate. The financial advice activities include selling insurance, pensions, mortgages, financing, savings and investment products. The intercession activities in real estate comprise brokerage activities of residential as well as commercial real estate and real estate management business. In order to focus more on financial advice, it was announced in December 2008 that the brokerage activities of residential real estate will be sold.

2.4.5 General insurance

AEGON The Netherlands offers a limited range of non-life insurance products through AEGON Intermediary. These are aimed at both the corporate and retail markets. They include house, car and fire insurance. In 2008, general insurance accounted for approximately 4 percent of AEGON The Netherlands overall operating earnings before tax.

2.5 Competition

AEGON The Netherlands faces strong competition in all of its markets from insurers, banks, and investment management companies. These competitors are nearly all part of international financial conglomerates, such as ING Group, Eureko (Achmea), Fortis and Aviva (Delta Lloyd).

AEGON The Netherlands has been a key player in the total life market for a long time. The life insurance market in the Netherlands, comprising both pensions and life insurance, is very concentrated. The top 6 companies account for approximately 89% of premium income in The Netherlands (source: DNB Regulatory Returns 2007). In the pensions market AEGON The Netherlands ranks first, whereas in the individual life insurance market AEGON The Netherlands takes sixth place behind ING, SNS Reaal, Eureko, Fortis and Delta Lloyd (based on premium income, source: DNB Regulatory Returns 2007).

AEGON The Netherlands is one of the smaller players on the non-life market. Achmea, Fortis, Delta Lloyd and ING have substantial market shares, whereas the rest of the market is very fragmented. The P&C market share of AEGON The Netherlands is around 3.4% in premium income. (source: DNB Regulatory Returns 2007).

In recent years, several changes in regulations have limited opportunities in the Dutch insurance market, especially in the life insurance market (e.g. company savings plans and premiums of certain products are no longer tax deductible). Furthermore, the low economic growth and volatility of financial markets have created uncertainty among customers and a reluctance to commit to long-term contracts. These changed legal and market conditions have augmented competition. The result is competitive pricing, focus on service levels, client retention, and product innovation.

The pensions business has been affected by an increase in the number of new government regulations (e.g. the Surviving Relative Pension Act, the Non-Discriminatory Pensions Act and the new Pension Law). Timely compliance, flexibility in implementation and execution of these regulations may give AEGON The Netherlands a competitive advantage and distinguish the company in this highly competitive market. IT activities are essential in realizing these goals.

In the non-life segment, opportunities are expected to grow as the Dutch government gradually withdraws from the subject market.

2.6. Regulation

Two institutions are responsible for the supervision of financial institutions in the Netherlands:

- Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets) or AFM and
- De Nederlandsche Bank (the Dutch Central Bank) or DNB.

The AFM supervises the conduct of and the provision of information by all parties on the financial markets in the Netherlands. The objective of the AFM is to promote an orderly and transparent market process on the financial markets, the integrity of relations between market players and the protection of the consumer. DNB is responsible for safeguarding financial stability and supervises financial institutions and the financial sector.

New regulations pertaining to the supervision of financial institutions referred to as Wet Financieel Toezicht (Act on Supervision of the Financial System) took effect in January 2007. The new law pertains equally to banking and insurance operations and introduces a greater degree of consistency in both requirements and supervision.

2.6.1 Insurance companies

The European Union Insurance Directives issued in 1992 have been incorporated into Dutch law. The Directives are based on the home country control principle. This means that an insurance company that has a license issued by the regulatory authorities in its home country is allowed to conduct business, either directly or through a branch, in any country of the European Union. Separate licenses are required for each of the insurance company s branches in which it conducts business. The regulatory body that issued the license is responsible for monitoring the solvency of the insurer. However, the local regulatory body is responsible for monitoring market conduct and enforcing consumer protection laws.

Dutch law does not permit a company to conduct both life insurance and non-life insurance business within one legal entity. Nor is the company allowed to carry out both insurance and banking business within the same legal entity.

Insurance companies in the Netherlands are subject to the supervision of DNB. The relevant legal requirements are now comprised in the Wet Financieel Toezicht whereas previously supervision was pursuant to the Act on the Supervision of Insurance Companies 1993. Each and every life and non-life insurance company licensed by and falling under the supervision of DNB must file audited regulatory reports at least annually. These reports, primarily designed to enable DNB to monitor the solvency of the insurance company, include a (consolidated) balance sheet, a (consolidated) income statement, extensive actuarial information, and detailed information on the investments. As part of the process of modernization brought about by the introduction of IFRS in 2005 and the new supervisory legislation in 2006, DNB has revised the format of regulatory reporting. The new reporting with a single entity focus is designed to highlight risk assessment and risk management, and came into effect in 2008.

DNB may request any additional information it considers necessary and may conduct an audit at any time. DNB can also make recommendations for improvements and publish these recommendations if the insurance company does not follow them. Finally, DNB can appoint a trustee for an insurance company or, ultimately, withdraw the insurance company s license.

The following insurance entities of AEGON The Netherlands are subject to the supervision of DNB:

- AEGON Levensverzekering N.V.
- AEGON Schadeverzekering N.V.
- AEGON NabestaandenZorg N.V.
- AEGON Spaarkas N.V.
- OPTAS Leven N.V.
- OPTAS Pensioenen N.V.
- OPTAS Schade N.V.

Life insurance companies are required to maintain certain levels of shareholders equity in accordance with EU directives (approximately 5% of their general account technical provision, or, if no interest guarantees are provided, approximately 1% of the technical provisions with investments for the account of policyholders).

General insurance companies are required to maintain shareholders equity equal to or greater than 18% of gross written premiums per year or 23% of the three-year average of gross claims.

2.6.2. Banking institutions

AEGON Bank N.V. falls under the supervision of the DNB, pursuant to the Wet Financieel Toezicht, and must file monthly regulatory reports and an annual report. The annual report and one of the monthly reports must be audited.

Banking institutions are required to maintain solvency and liquidity ratios in line with the requirements of the Wet Financieel Toezicht, which incorporate the requirements of the relevant EU directives.

2.7. Asset liability management

The investment strategy of AEGON The Netherlands is determined and monitored by the AEGON NL Risk and Capital Committee (AEGON NL RCC). The AEGON NL RCC meets at least on a quarterly basis. The focus of these meetings is, amongst other things, to ensure an optimal strategic asset allocation, to decide on interest rate hedging strategies to reduce interest rate risks, and to decide on the need for securitizations of residential mortgage portfolios to free funds for further business development.

Most (insurance) liabilities of AEGON The Netherlands are nominal and long-term. Based on their characteristics, a long-term liability-driven benchmark is derived. Scenarios and optimization analyses are conducted with respect to the asset classes fixed income, equities and real estate, but also for various sub-classes, for example commodities, hedge funds and private equity. The result is an optimal asset allocation representing different investment risk-return profiles. Constraints such as the minimum return on equity and the maximum solvency risk also determine alternative strategic asset allocations. Most of AEGON The Netherlands investments are managed in-house by AEGON Asset Management. For certain specialized investments, such as hedge funds and private equity, AEGON The Netherlands hires external managers. Portfolio managers are allowed to deviate from the benchmark based on their short-

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term and medium-term investment outlook. Risk-based restrictions are in place to monitor and control the actual portfolio allocations compared to their strategic portfolio allocations. An internal framework limits investment exposure to any single counterparty.

AEGON The Netherlands and pension fund PGGM have a joint venture Amvest Vastgoed B.V. for their combined real estate investments. Furthermore, Amvest Vastgoed B.V. manages a separate real estate portfolio of AEGON The Netherlands.

2.8. Reinsurance ceded

Like other AEGON companies around the world, AEGON The Netherlands reinsures part of its insurance exposure with third-party reinsurers under traditional indemnity, quota share, and, in some instances, excess of loss contracts. This is in line with standard practices within the global insurance industry. Reinsurance helps AEGON manage, mitigate and diversify its insurance risks and limit the maximum loss it may incur on risks that exceed policy retention limits.

AEGON The Netherlands remains contingently liable with respect to the amounts ceded, should the reinsurance company fail to meet the obligations it has. To minimize its exposure to such defaults, AEGON The Netherlands regularly monitors the creditworthiness of its primary reinsurers. AEGON The Netherlands has experienced no material reinsurance recoverability problems in recent years. Where appropriate, additional reinsurance protection is contracted either through letters of credit or, alternatively, through trust arrangements. Under certain of these arrangements, funds are withheld for investment by the ceding company.

AEGON The Netherlands reinsures its life exposure through a profit-sharing contract between its subsidiary AEGON Levensverzekering N.V. and Swiss Re, one of the world s leading reinsurance companies. Under this arrangement, AEGON retains exposure of up to a maximum of EUR 900,000 per insured person with respect to death risk and EUR 25,000 a year for disability risk. Any amount in excess of this is transferred to the reinsurer.

For its fire insurance business, AEGON The Netherlands has in place an excess of loss contract with a retention level of EUR 3 million for each separate risk and EUR 20 million for each event. AEGON The Netherlands has reinsured its motor liability business on a similar basis with a retention level of EUR 2.5 million for each event.

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The United Kingdom

3.1. Background

AEGON UK is a leading provider of life insurance and pensions and also has a strong presence in both the asset management and financial advice markets. With offices located in the United Kingdom and Ireland, AEGON UK has some two million customers, more than 5,000 employees and GBP 47 billion in revenue-generating investments. AEGON UK s main offices are in four locations: Edinburgh, London, Lytham St Annes and Dublin.

3.2. Organizational structure

AEGON UK plc. (AEGON UK) is AEGON UK s principal holding company. It was registered as a public limited company at the beginning of December 1998.

AEGON UK s leading operating subsidiaries are:

- Scottish Equitable plc. (trading as AEGON Scottish Equitable)
- AEGON Asset Management UK plc.
- Origen Financial Services Ltd.
- Positive Solutions (Financial Services) Ltd.
- HS Administrative Services Ltd.
- Guardian Assurance plc.

The company is organized into three distinct businesses:

- AEGON Life and Pensions, which provides pensions, annuities, investments and protection products for people and companies.
- AEGON Asset Management, which provides investment management services for AEGON UK itself, other institutional customers and private investors.
- AEGON UK Distribution, which consists of intermediary distribution and advice businesses.

3.3. Overview sales and distribution channels

AEGON UK s principal means of distribution is through the intermediated financial advice channel, which is the main sales route for long-term savings and retirement products in the United Kingdom. These advisors provide their customers with access to various types of products depending on their regulatory status. They also advise them on the best solution to suit their financial needs.

In all, there are an estimated 35,000 registered financial advisors in the United Kingdom. These advisors may be classified as single-tied, multi-tied, whole of market or independent, depending on whether they are either restricted in the number of providers they deal with or are free to advise on all available products. AEGON UK maintains strong links with financial advisors in all segments of the market. Single-tie relationships have also been established with some advisors who have selected AEGON UK to be the sole provider of a particular product type.

AEGON UK is also developing new distribution opportunities including agreements with banks and affinity partnerships with organizations outside the industry.

3.4. Overview lines of business

AEGON UK has three lines of business:

- Life and protection
- Pensions and asset management
- Distribution

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3.4.1. Life and protection

General description

The AEGON UK life business comprises primarily individual and group protection (group risk), as well as individual and bulk annuities. The protection business provides insurance on individual or groups of lives for major life events such as death or serious illness. Annuities are used to convert savings accumulated as part of a pension plan into a regular income throughout retirement. In 2008, the Life and protection line of business accounted for approximately 47 percent of AEGON UK s overall operating earnings before tax.

Products

Individual protection

AEGON UK offers a range of products for individual customers, including life cover, critical illness and income protection. In addition, it also provides products for companies wishing to insure key personnel. AEGON UK is now established as one of the United Kingdom s five leading providers of individual financial protection, (according to 2008 figures from the Association of British Insurers).

Group risk

Group risk products enable companies to insure benefits they provide to employees, such as life cover, critical illness and income protection. Usually, group risk products are sold on a standard basis where the employer selects and pays for the type of cover they wish to offer. There has also been growth in flexible benefits packages, which are designed to give employees more choice over their benefits packages. AEGON UK has established itself as a recognized specialist in this area.

Immediate annuity

In the United Kingdom, most of the funds in a pension plan must be converted into a source of income by the time the planholder reaches 75, usually through the purchase of an immediate annuity. As an alternative to annuities, in 2008 AEGON UK launched Income for life , a new retirement solution which bridges the gap between annuities and income drawdown products. It offers customers a guaranteed income for life, plus continued control over their investments up to age 75.

Bulk annuities

The group annuity market is growing rapidly as an increasing number of defined benefits plans in the United Kingdom are closed (see Corporate Pensions, below). Bulk annuities are designed specifically for trustees who wish to wind up already closed defined benefit plans. The contract includes a secured benefit product, under which all deferred and immediate pensions are bought out via a trustee policy prior to the plan being wound up. Once the winding-up process is complete, individual deferred and immediate annuity policies are then assigned to the plan s members. In 2008, AEGON UK launched a new form of insurance for this market, the Guaranteed Annuity Premium (GAP), which allows trustees considering wind-up to guarantee the actuarial basis for the buyout for a fixed term.

Sales and distribution

Individual protection and annuity products are widely distributed through intermediated advice channels. Group risk and bulk annuities however, are distributed primarily through a smaller number of specialist employee benefit consultancies.

3.4.2. Pensions and asset management

General description

Pensions and asset management constitute AEGON UK s most important lines of business. In 2008, they accounted for more than 54 percent of AEGON UK s overall operating earnings before tax.

AEGON UK provides a full range of personal and corporate pensions, as well as related products and services such as third-party administration and benefit solutions software. The company also offers investment products, including onshore and offshore bonds, and trusts. AEGON UK s asset management business manages AEGON UK s own life and pension funds, as well as offering institutional and retail funds.

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Products

Individual pensions

AEGON UK provides a wide range of personal pensions as well as associated products and services. These include:

- Flexible personal pensions
- Self-invested personal pensions (SIPPs), which provide a range of pre- and post-retirement investment options for high net worth customers, including insured funds and real estate
- Transfers from other retirement plans
- Phased retirement options and income drawdown
- Stakeholder pensions (a type of personal pension specific to the United Kingdom which has a maximum limit on charges and low minimum contributions)

According to figures from the Association of British Insurers, AEGON UK is one of the top 3 providers of SIPPs and specialist phased income pensions.

Corporate pensions

One of AEGON UK s largest businesses is providing pension plans for companies. The trend away from defined benefit (DB) arrangements, which provide a guaranteed percentage of salary on retirement, toward defined contribution (DC) plans has continued to accelerate in recent years. DC plans are similar to personal pensions with contributions being paid into a plan owned by individual employees and then invested. Generally, at retirement, employees can choose to take a predetermined percentage of tax-free cash from their pension plan, using the remainder either to purchase an annuity or else to invest in a separate drawdown policy until they reach the age of 75.

As a result of this trend, the market for new DB plans has shrunk dramatically in recent years, largely because of concerns over long-term liabilities. There are, however, opportunities for AEGON UK to take on the administration and management of existing plans.

AEGON UK also offers a group self-invested personal pension designed to extend to group pension customers the benefits associated with individual SIPPs, such as greater investment choice.

Investment products

AEGON UK offers two types of investment bonds designed for customers residing in the United Kingdom: the onshore bond and offshore contracts.[1]

The onshore bond is a type of life contract, aimed primarily at pre- and post-retirement customers looking for either a source of income or a way of growing their savings. The bond offers a wide range of investment options and funds, managed by some of the world s leading asset managers.

While the onshore bond is aimed at a mass affluent market, AEGON UK s offshore contracts have traditionally been marketed to high net worth individuals. Offshore contracts offer considerable tax advantages and a wide choice of investment options. These contracts tend to form part of a broader retirement strategy, primarily because there are fewer restrictions on how and when benefits may be taken. Through an offshore contract, AEGON UK also offers customers in the United Kingdom the Group s 5 for Life variable annuity-style product.

AEGON UK also provides a range of trusts designed to support inheritance tax planning. This is an area of growing demand as recent economic growth and rising wealth means more estates are falling under UK Inheritance Tax. Trusts help individuals manage and alleviate potential tax liabilities.

Asset management

With some GBP 47 billion in revenue generating investments, AEGON UK is one of the United Kingdom s leading institutional investors. AEGON Asset Management offers:

Institutional funds

- A diverse range of pooled and segregated investment solutions

Retail funds

- A range of fixed income solutions, including corporate bond funds
- Equity investments with global market coverage, including a range of UK funds
- Ethical funds investing in bonds and equities

[1] The onshore bond is provided by AEGON Scottish Equitable. The offshore contracts are offered by AEGON Scottish Equitable International.

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Life and pensions

An extensive range of life and pension funds on behalf of AEGON UK

Sales and distribution

Investment products as well as individual and corporate pensions are distributed widely through independent financial advisors, tied distribution and, more recently, through partnerships with banks. In addition, AEGON UK also maintains close relations with a number of specialist advisors in these markets.

AEGON Asset Management markets its funds to large consultancy firms that advise institutional clients, fund supermarkets and specialist discretionary investment advisors for retail clients.

3.4.3. Distribution

Through the company s Origen and Positive Solutions businesses, AEGON UK also provides financial advice directly to both individuals and companies.

Origen is a leading financial adviser firm, with strong positions in both the corporate and high net worth individual markets. It promotes its services through a variety of different sales channels, including face-to-face, media and worksite marketing, as well as accessing customers through professional contacts with accountants and lawyers.

Positive Solutions, meanwhile, brings together over 1,000 individual partners in one of the largest and fastest-growing adviser networks in the United Kingdom.

3.5. Competition

AEGON UK faces competition in each of its markets from three main sources: life and pension companies, investment management companies, and financial advice firms.

Over the past few years, the life and pension market has been increasingly concentrated among the largest companies and those perceived to be financially strong.

The market for investment management services is more fragmented, but very competitive in certain specific segments and activities.

The financial advisor market in the United Kingdom is fragmented, with a large number of relatively small firms. The removal of polarization rules in the advice market in 2005 has led to advisors choosing to operate on a multi-tied, single-tied, whole of market, or independent basis. More recently, there has been significant consolidation in this market. Further consolidation is expected as a result of financial pressures in the market. Even so, fragmentation remains high. There are few firms with a genuine nationwide presence or a well-known brand outside specific local areas.

3.6. Regulation

All relevant AEGON UK companies are regulated by the Financial Services Authority under the United Kingdom s Financial Services and Markets Act 2000.

The Financial Services Authority acts both as a prudential and conduct of business supervisor. As such, it sets minimum standards for capital adequacy and solvency, and regulates the sales and marketing activities of regulated companies. New rules relating to capital requirements for life insurers were implemented in December 2004.

All directors and some senior managers of AEGON UK undertaking particular roles (e.g. finance/actuarial, fund managers, dealers, and salesmen) have responsibilities to the Financial Services Authority as Approved Persons . As such, they are subject to rigorous pre-appointment checks on their integrity and competence, and are subject to ongoing supervision throughout their mandate as Approved Persons and for a limited period afterwards.

The AEGON Scottish Equitable International business includes the Dublin-based life insurance company, Scottish Equitable International (Dublin) plc. (authorized by the Irish Financial Services Regulatory Authority and regulated by the United Kingdom s FSA for conduct of UK business), as well as a Dublin-based service company, Scottish Equitable International Services plc.

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3.7. Asset liability management

Asset liability management (ALM) is overseen by the AEGON UK ALM Committee, which meets each month to monitor capital requirements and ensure appropriate matching of assets and liabilities.

In addition to monitoring risk exposures in compliance with AEGON N.V. s worldwide Risk Management strategies, investment exposure to any single counterparty is limited by an internal framework that reflects the limits set by the appropriate regulatory regime. This applies both within asset classes (equities, bonds and cash) and across all investments.

For its with-profit business, AEGON UK s general philosophy is to match guarantees with appropriate investments. However, the nature of with-profit businesses typically prevents perfect matching, and the role of the committee is therefore to monitor the capital implications of any mismatching. On an annual basis, detailed reports are produced for the relevant subsidiary Boards covering the impact of a range of possible investment scenarios on the solvency of each of the funds. These reports allow the central investment strategy for the with-profit funds to be discussed and are summarized for the Board of AEGON UK. In respect of non-profit business, interest rate risk arises substantially on AEGON UK s large book of annuities in payment. Assets are purchased to provide a close expected match to liability outflows, with regular reporting to the ALM Committee on the capital implications of any mismatching.

For unit-linked business, the matching philosophy results in close matching of the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets is invested in funds managed by external investment managers. An investment committee, which reports to the relevant subsidiary Boards, meets each months to monitor the performance of the investment managers against fund benchmarks.

With-profit funds

The invested assets, insurance and investment contract liabilities of AEGON UK s with-profit funds are included in for account of policyholder assets and liabilities . Assets and liabilities are always equal as any excess of assets over liabilities in respect of guaranteed benefits and constructive obligations are classified as an insurance or investment contract liability. The Scottish Equitable with-profit fund is a 100:0 fund, where all benefits are held for participating policyholders. The Guardian Assurance plc with-profit fund is a 90:10 fund where AEGON UK receives 10% of the surpluses distributed to policyholders. The amount of profit AEGON UK derives from the Guardian fund is driven by the level of declared bonuses.

The operation of with-profit funds is complex. What is set out below is a brief summary of our overall approach:

Guarantees

With the exception of 5 for Life (which is written in Dublin), and the product guarantees within Investment Control and Income for Life (which are reinsured to Dublin), all AEGON UK contracts with investment guarantees have been written in policyholder-owned funds (otherwise called with-profit funds). These funds contain free assets , which, as yet, have not been distributed to individual policyholders. Free assets help meet the cost of guarantees and provide a buffer to protect the fund from the impact of adverse events. AEGON UK has an exposure only once these assets have been exhausted. As outlined below, AEGON believes this exposure to be low.

In previous years, Scottish Equitable and Guardian Assurance sold guaranteed annuity products in the United Kingdom. Certain policies also have a guaranteed minimum rate of return or guaranteed death or other benefits. Any guaranteed rates of return only apply if the policy is kept in force to the dates specified, or on the events described in the policy conditions. The costs of all guarantees are borne by the with-profit funds and therefore impact the payouts to with-profit policyholders. AEGON UK s main with-profit classes are summarized in the following sections.

Scottish Equitable plc.

As part of its demutualization process before being acquired by AEGON N.V., on December 31, 1993, the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc. AEGON UK has no financial interest in Scottish Equitable plc. s with-profit fund, apart from routine yearly fund management charges, as well as costs and expenses that the company agreed to accept at the time of demutualization.

Guaranteed rates of return on with-profit policies are typically in the range of 0% to 5.5% a year, with the highest rates closed to new premiums in 1999 and all funds closed to new business with investment guarantees from October 2002, except for a low level of increments.

Under a number of contracts written mainly in the 1970s and 1980s, Scottish Equitable also offered minimum pension guarantees (including guaranteed annuity options). As life expectancy rates have improved and interest rates have fallen over time, these minimum guarantees are now often valuable.

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Guardian Assurance plc

The AEGON UK interest in Guardian Assurance plc s with-profit fund is 10% of profits in the fund, with the remaining 90% going to with-profit policyholders. In 1998, prior to Guardian Assurance s acquisition by AEGON UK, the with-profit fund was restructured and closed to new business, except for a low level of increments.

Guaranteed returns on policies without guaranteed cash options or annuity payments are typically 0% to 3.5% a year. On policies with guaranteed cash options or annuity payments, guaranteed returns depend on the value of the options at retirement.

Management of the with-profit funds

It has been AEGON UK s practice to have an investment strategy for each of its with-profit funds that reflects the nature of the underlying guarantees. Funds can invest in a variety of different asset types. The main categories are United Kingdom and overseas equities, United Kingdom fixed interest securities, property and cash. Each with-profit fund has a target range for the percentage of its assets that are invested in a combination of equities and property. These ranges may be varied. Within the target ranges, there is a policy of holding an appropriate mix of asset classes to reduce risk.

The results of the with-profit funds investment performance is distributed to policyholders through a system of bonuses which depend on:

- The guarantees under the policy, including previous annual bonus additions.

- The investment returns on the underlying assets, with an allowance for smoothing to reduce volatility. Although smoothing means that investment profits are spread from one year to the next, the aim is to pay out all of the investment profits earned by the fund over the long term. On early withdrawals there are other measures to ensure that a fair share of total fund growth has been received. Indeed, a market value reduction may be applied under certain funds when, for cohorts of similar contracts, the face value of the benefits is greater than the value of the underlying assets. Policy conditions may state specific points at which a market value reduction will not apply.

As mentioned above, the free assets (i.e. assets which, as yet, have not been distributed to policyholders) help meet the cost of guarantees and provide a buffer to deal with adverse events. AEGON UK has an exposure only once these free assets have been exhausted. This has been assessed by AEGON UK to be immaterial based on applying the risk-based capital approach now required for solvency reporting in the United Kingdom.

As all of AEGON UK s with-profit funds are now closed to new business with investment guarantees, the process has begun of gradually distributing free assets to with-profit policyholders through the bonus system outlined above. Part of the management of this process involves endeavoring to ensure that any surpluses in the with-profit fund from other (historic) business lines can be distributed to existing with-profit policyholders at a suitable rate. In particular, Guardian Assurance plc has reinsured blocks of immediate annuity business to another part of AEGON UK on terms that reflect prevailing market rates. This helps avoid a tontine effect building up in the fund, as the number of with-profit policyholders declines.

3.8 Reinsurance ceded

AEGON UK s reinsurance strategy is aimed at limiting overall mortality and morbidity volatility and maximizing any tax benefits that reinsurance can bring. The actual percentage of business which is reinsured of course varies, depending chiefly on the availability and price of reinsurance on the market.

Prior to 2002, AEGON UK adopted a similar approach to longevity risk. Since then, however, AEGON UK has considered the terms available in the reinsurance market for longevity risk to be relatively unattractive compared to the margins expected from this business and the diversification benefits available to the company by retaining this risk.

AEGON UK prefers to work only with reinsurance companies that have a credit rating of AA or above. Using a reinsurer with a lower credit rating would require the approval of AEGON UK s local risk and capital committee as well as prior discussion with AEGON s Group Risk division in The Hague. Over the past few years, AEGON UK has maintained its approach despite reinsurance companies suffering periodical downgrades.

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OTHER COUNTRIES

4.1. Background

In the past few years, AEGON has significantly expanded its international presence outside its three main established markets of the United States, the Netherlands and the United Kingdom. AEGON is now present in more than twenty markets in total in Europe, the Americas and in Asia.

In particular, AEGON has seen strong growth in its businesses in Central and Eastern Europe, as well as in other new, emerging markets such as China, India and Taiwan.

4.1.1 Central and Eastern Europe

AEGON first entered the Central and Eastern European market in 1992 when the Group bought a majority stake in Hungary s former state-owned insurance company, Állami Biztosító. Hungary remains AEGON s leading business in the region and a springboard for further expansion. Today, AEGON has operations in six Central and Eastern European countries: Hungary, Poland, the Czech Republic, Slovakia, Romania and Turkey.

4.1.2. Asia

AEGON opened its first business in Asia in 1993 in Taiwan. Since then, the Group has expanded its operations in the region. AEGON today has businesses in China, India and Taiwan and is applying for a license in Japan.

AEGON Taiwan began operations in 1994 as a branch of Life Investors, part of AEGON USA. Over the following years, AEGON Taiwan rapidly expanded its activities, including the acquisition of the American Family Life Insurance Company Taiwan and AXA portfolios in Taiwan, and the merger with Transamerica Taiwan. In December 2007, AEGON entered into a joint venture agreement with Taishin Financial Holding Co., one of the leading private banks in Taiwan with a four million customer base, to develop and distribute life insurance and pension products via Taishin s distribution network. The joint venture has not started operations yet as it is waiting for regulatory approval.

In 2002, AEGON signed a joint venture agreement with China National Offshore Oil Corporation (CNOOC), China s leading offshore oil and gas producer. AEGON-CNOOC began operations in May 2003. The joint venture is licensed to sell both life insurance and accident and health cover in mainland China.

Since 2003, AEGON-CNOOC has been steadily extending its network of offices and businesses in China. It now has licenses in seven different locations Shanghai, Beijing, Jiangsu, Shandong, Zhejiang, Tianjin and Guangdong. These locations give the joint venture access to a potential market of some 200 million people, most of them in the booming coastal provinces of eastern China.

In May 2007, AEGON agreed to form an asset management joint venture with China s Industrial Securities, one of the country s leading securities companies. Under the agreement, as of April 2008, AEGON has a 49 percent interest in AEGON-Industrial Fund Management Company, a mutual fund manager with approximately EUR 2.6 billion in assets under management. The joint venture with Industrial Securities marked an important step for AEGON, further strengthening its commitment to the Chinese market and extending the Group s range of businesses in the country.

In addition to Taiwan and China, AEGON is also present in India. In 2006, AEGON agreed to form a new life insurance and asset management partnership in India with Religare Enterprises Limited, a Ranbaxy Promoter Group (Ranbaxy) Company. The life insurance joint venture started operations in 2008 and currently has opened 45 branches across 39 cities. Late 2008 AEGON and Ranbaxy decided to discontinue their asset management partnership. AEGON is currently investigating its options in the India asset management market.

In early 2007, AEGON announced it had signed a joint venture agreement with Sony Life, one of Japan s leading insurance companies. This joint venture will initially focus on variable annuities sales in Japan, but the agreement also provides a platform for further cooperation between AEGON and Sony Life. The joint venture is currently awaiting regulator approval before it can commence operations.

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4.1.3. Western Europe (Spain and France)

In addition to the United Kingdom and the Netherlands, AEGON has a presence in two other western European countries: Spain and France.

AEGON first entered the Spanish market in 1980 when it bought local insurer, Seguros Galicia. In recent years, AEGON s activities in Spain have grown rapidly, mainly due to distribution partnerships with some of the country s leading savings banks. AEGON Spain operates through two subsidiaries: AEGON Seguros Salud and AEGON Seguros de Vida. Administration and operational services to all companies in Spain, including joint ventures with third parties, are provided by AEGON Administracion y Servicos A.I.E., a separate legal entity. In addition AEGON operates through partnerships with Caja Mediterraneo (CAM), Caja Navarra, Caja Badajoz and Caja Cantabria.

In August 2008, AEGON purchased 50% of Caixa Terrassa Vida, a life and pension insurance company owned by Caixa Terrassa. The parties agreed to sell health insurance products through this joint venture. The effective date of the purchase was October 31, once the transaction was approved by the regulator.

In December 2008, AEGON executed its purchase option over the 40% of Caja Cantabria Vida, a life and pension insurance company set up at the end of 2007. As a result of this purchase AEGON s stake in the company is currently 50%.

At the end of 2002, AEGON also agreed a partnership with mutual insurer La Mondiale, one of France s leading insurance and pension companies. AEGON has a 35 percent interest in La Mondiale's subsidiary company La Mondiale Participations. La Mondiale Participations offers a wide range of life insurance, pension, savings, investment, asset management and accident and health products to both corporations and individual retail customers.

4.2. Organizational structure

AEGON s other international businesses operate through a number of subsidiaries and joint venture partnerships. These international businesses are referred to collectively as Other Countries .

AEGON s main subsidiaries and affiliates are:

Central and Eastern Europe

- AEGON Hungary Composite Insurance Company Limited by Shares
- AEGON Hungary Investment Fund Management Company Limited by Shares
- AEGON Hungary Pension Fund Management Company Limited by Shares
- AEGON Hungary Mortgage Finance Company Limited by Shares
- AEGON Hungary Real Estate Limited Company
- AEGON Hungary Private Intermediary Company Limited by Shares
- AEGON Hungary Investment Fund Distributor Company Limited by Shares

AEGON Poland Life Insurance Company

AEGON Pension Fund Management Company (Poland)

AEGON Life Insurance Company (Slovakia)

AEGON Partner Company (Slovakia)

AEGON Pension Fund Management Company (Slovakia)

AEGON Voluntary Pension Fund Management Company (Slovakia)

AEGON Life Insurance Company (Czech Republic)

AEGON Voluntary Pension Fund Company (Czech Republic)

BT-AEGON Pension Fund Management Company, 50% (Romania)

AEGON Life Insurance Company (Romania)

AEGON Pension and Life Insurance Company (Turkey)

Asia

AEGON Life Insurance (Taiwan) Inc.

AEGON-CNOOC Life Insurance Co. Ltd.

AEGON Religare Life Insurance Co. Ltd.

AEGON Industrial Fund Management Co. Ltd. (AIFMC)

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Western Europe (Spain and France)

AEGON Seguros Salud

AEGON Seguros de Vida

AEGON Administracion y Servicos A.I.E

Mediterraneo Vida, 49.99%

Caja Badajoz Vida y Pensiones, 50%

CAN Vida y Pensiones, 50%

Cantabria Vida y Pensiones, 50%

Caixa Terrassa Vida y Pensiones, 50%

4.3. Central and Eastern Europe

AEGON s activities in Central and Eastern Europe operate through a number of different sales channels. These include tied agents, insurance brokers, call centers and, particularly in Poland, Romania and Hungary, retail banks. Through tied agents, brokers and call centers, AEGON sells primarily life and non-life insurance and pensions. Banks and loan centers are used to sell mainly life insurance, mortgages, mutual fund, pensions and household.

4.3.1 Life and protection

AEGON companies in Central and Eastern Europe offer a range of life insurance and personal protection products. This range includes traditional life as well as unit-linked products. Due to the global market decline, the high growth rate of the single premium unit-linked products that was experienced in prior years, stopped in the last quarter of 2008. Unit-linked products cover all types of life insurance, including pension, endowment and savings. In Poland, AEGON is still one of the leading providers of single premium unit linked products, offering a range of more than 170 different investment funds.

Traditional general account life insurance is a marginal product for most of the region s businesses. The exception is Hungary. Traditional general account includes mainly index life products that are not unit-linked but guaranteed rates of interest.

Group life and preferred life are also part of traditional general account life. Group life contracts are renewable each year. They also carry optional accident and health cover. AEGON offers savings products in Central and Eastern Europe as part of employee benefit programs. These products include guaranteed interest rate returns.

The main guarantee in Hungary is variable crediting rates with minimum interest guarantees between 0% and 4% for universal life type products, plus 100% participation in actual interest earned. Traditional non-profit share products have 5.5% technical interest rates, but this is an insignificant block of business. Profit share products mainly have a 3.5% technical interest rate and 85% participation in excess interest. The average minimum interest guarantee is about 3%.

In Hungary, a small part of the current new business provides a minimum interest guarantee of 2%. In Poland, an insurance fund with minimum rate reset quarterly and annually is offered on unit-linked products. In Slovakia the minimum interest rate on universal life products was 3% up to the end of 2006 and since then has been 2.5%. The universal life products in the Czech Republic have a guaranteed interest rate of 2.4%. The profit share product portfolio in Turkey, have a guaranteed interest rate of 9% for Turkish Lira products. For foreign currency products, the guaranteed interest rate varies between 5%, 2.5% and 1.5%. A minimum 85% of the interest income in excess of guaranteed return is credited to policyholders funds in Turkey. The products ceased being sold in March, 2007 (before AEGON acquired the business).

Based on gross written premium, Hungary has around a 70% share and Poland has around a 20% share in the traditional general account life insurance portfolio of the CEE Region. The bulk of the unit-linked portfolio (around 60%) was written in Poland, around 30% of the portfolio was written in Hungary and also there are some smaller unit linked portfolios in the Czech Republic and Slovakia.

In 2008 AEGON established AEGON Life Insurance Company in Romania. This company will start to sell life insurance policies in 2009.

Since 2006, AEGON Hungary has been offering mortgages to retail customers. Home loans are Swiss franc denominated and provided by AEGON Hungary Mortgage Finance Co., a subsidiary of AEGON Hungary Composite Insurance Company. AEGON is targeting to be a niche market player.

4.3.2 Individual savings and retirement products

AEGON companies in Central and Eastern Europe offer a variety of individual savings and retirement products. AEGON Hungary Investment Fund Management Company, a subsidiary of AEGON Hungary Composite Insurance Company, offers a range of mutual funds to retail investors. In 2008, AEGON Hungary Investment Fund Distributor Company was licensed to trade with AEGON investment notes on the retail market. In addition, AEGON offers unit-linked investment products in the Czech Republic.

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4.3.3 Pensions and asset management

Pensions

AEGON s pension business in Central and Eastern Europe has experienced considerable growth in recent years. This is due mainly to the region s strong economic growth and widespread reform of the pension system in many countries. In four of the six countries in which AEGON has businesses, AEGON has introduced mandatory pension plans: Hungary, Slovakia, Poland and Romania. Additionally in four countries, AEGON has voluntary pension plans: Hungary, Slovakia, the Czech Republic and Turkey.

The mandatory pension fund in Romania was launched in 2007, following a partnership agreement signed with Banca Transilvania, to set up a joint pension company ahead of the introduction of the country s new mandatory retirement system in early 2008. AEGON voluntary pension funds in Slovakia and in the Czech Republic also started to operate in 2007. By the acquisition of Ankara Emeklilik A.S., AEGON entered the Turkish voluntary pension market in 2008. In Hungary, Slovakia, the Czech Republic, Poland, Romania and Turkey, AEGON now has a total of 2.1 million pension fund members.

AEGON s mandatory pension funds in Hungary, Poland and Slovakia, as well as the voluntary pension fund managed by AEGON Hungary, are among the largest in their countries in terms of both membership and assets under management.[1]

In 2008 AEGON PTE merged with PTE Skarbiec-Emerytura, a pension fund management company belonging to Poland s BRE Bank. PTE Skarbiec-Emerytura managed the accounts of over 400,000 members. Also, in 2008 AEGON Hungary acquired the Pension Fund Management Company and the Investment Fund Management Company of UNIQA. The acquired UNIQA entities managed the accounts of over 130,000 members. Also, in 2008 AEGON purchased Ankara Emeklilik A.S. a life insurance and pension provider in Turkey. The company was renamed as AEGON Pension and Life Insurance Company. AEGON Pension and Life Insurance Company manages the accounts of over 70,000 members in Turkey.

Asset management

AEGON provides a range of asset management services through the AEGON Hungary Investment Fund Management Company.

AEGON Hungary Investment Fund Management Company:

- manages the general account assets, unit-linked portfolio and pension plans of AEGON Hungary;
- manages the guaranteed fund of AEGON Poland;
- provides asset management services to third parties in Hungary;
- provides asset management services to the AEGON Voluntary Pension Fund Company in the Czech Republic;
- manages the assets of 15 AEGON mutual funds; and
- oversees all AEGON investment activities in the Central and Eastern European region.

4.3.4 General insurance

In addition to life insurance and pensions, AEGON Hungary offers non-life cover (household, car insurance and some wealth industrial risk). In recent years, margins on non life insurance in Hungary have been attractive. Moreover, household insurance provides considerable opportunities for cross-selling life insurance.

4.3.5 Competition

AEGON is among the biggest player on the life insurance market in Hungary. In 2008 based on the first nine months premium income, it is the fourth largest in Hungary (source: Hungarian Insurance Association, www.mabisz.hu). Also based on the first nine months premium income, AEGON is the third largest on the Hungarian non life insurance market (source: Hungarian Insurance Association, www.mabisz.hu). AEGON is also a significant market player on the Polish market, ranked as third based on the unit-linked products in September 2008 (source: www.knf.gov.pl) and fifth based on the net financial result (source: Insurance periodical: Miesiecznik ubezpieczeniowy October 2008, http://miesiecznikubezpieczeniowy.pl). As AEGON Slovakia was incorporated in 2003 and AEGON Czech in 2004 only, AEGON is a less significant player in these countries, just like the newly acquired AEGON Pension and Life Insurance Company in Turkey.

[1] Source: the Association of Pension Fund Management Companies, Slovakia (www.adss.sk), Hungarian Financial Supervisory Authority (www.pszaf.hu) and Polish Financial Supervision Authority (www.knf.gov.pl).

On the Hungarian mandatory pension fund market, AEGON was ranked second both in terms of the number of members and in terms of its managed assets in September 2008. On Hungary s voluntary pension fund market, AEGON was ranked third both in terms of the number of members and in terms of its managed assets in September 2008. (Source: www.pszaf.hu). Slovakia started a reform of its pensions system in January 2005. In terms of managed assets AEGON was ranked fifth on the Slovakian market in December 2008 (Source: Association of Pension Fund Management Companies). Due to the merger with PTE Skarbiec-Emerytura taking place in 2008, AEGON is ranked sixth both in terms of the number of members and in terms of its managed assets in December 2008 on the Polish market. (Source: www.knf.gov.pl).

4.3.6 Regulation

In Central and Eastern Europe insurance companies can be licensed only for separate businesses; that is, a single company can conduct either life insurance or non-life insurance but not both together. However, in Hungary, insurance companies established before 1995, including AEGON Hungary, are exempt from this rule.

State supervision and oversight of the insurance industry is conducted by the following bodies and institutions:

- the Hungarian Financial Supervisory Authority (HFSA), which has a department dealing exclusively with the insurance sector;
- the National Bank of Slovakia;
- the Czech National Bank; and
- the Polish Financial Supervisory Authority (PFSA);
- the Insurance Supervisory Commission (CSA) (Romania);
- the Undersecretariat of Treasury (Turkey).

The above-mentioned authorities promote consumer protection and have the right to investigate prudential activities and conduct, financial position and solvency, and compliance with all relevant laws.

In addition to legal regulation, insurance companies are subject to a number of self-regulatory bodies in their respective countries. These self-regulatory bodies are the main forums for discussion among insurance companies. Their specialized departments (e.g., actuarial, financial, and legal departments) meet periodically. They also engage in lobbying activities.

As one of the largest institutional investors in Hungary, the investment operations of AEGON Hungary are also regulated by the country s Capital Markets Act (CXX. 2001). This Act regulates the activity of brokerage houses, investment funds, fund managers, custodians, stock exchanges, settlement houses and the HFSA. Its main goal is to ensure the transparent operation of capital markets, to develop the regulation of market participants, and to enhance investment security. The Act conforms to relevant EU regulations. Effective 2006 AEGON Hungary Investment Fund Management Company was licensed for managing European investment funds (UCITS funds). This activity is also regulated by the Capital Markets Act.

In Hungary, the foundation and operations of mandatory and voluntary pension funds are regulated by the country s Act on Private Pension and Private Pension Funds (LXXXII. 1997) and its Act on Voluntary Mutual Pension Funds (XCVI. 1993) respectively. Although, for AEGON, these activities are outsourced to AEGON Hungary Pension Fund Management Company, its operations must still comply with this legislation. This activity is also supervised by the HFSA. Slovakia s mandatory pension market is regulated by Act 43/2004 on pension asset management companies and respective notices, and the voluntary pension market by Act 650/2004 on Supplementary Pension Insurance. Both the mandatory and the voluntary pension business fall under the supervision of the National Bank of Slovakia (NBS). In Romania the private pension system is regulated and supervised by the Private Pension System Supervisory Commission (CSSPP) and is subject to Act 411/2004 on Privately

Administered Pension Funds. In Poland this activity is supervised by the Polish Financial Supervisory Authority (PFSA) and is governed by Act as of 28 August 1997 on Organization and Operation of Pension Funds. In the Czech Republic the voluntary pension funds fall under the supervision of the Czech National Bank and are regulated by Act 42/1994 on State-Contributory Supplementary Pension Insurance. In Turkey the voluntary pension funds fall under the supervision of the Undersecretariat of Treasury and the companies are subject to Individual Retirement Saving and Investment System Law No. 4632.

In Hungary, the Act on Credit Institutions and Financial Enterprises (CXII. 1996.) regulates the foundation, operation and reporting obligations of all the country s financial institutions (including AEGON Mortgage). In addition, AEGON Hungary Mortgage Finance Company falls under the supervision of the Hungarian Financial Supervisory Authority (HFSA).

4.3.7 Asset liability management

Asset liability management is overseen by the Regional Risk and Capital Committee that meets on a quarterly basis. AEGON CEE s asset liability management focuses on asset liability duration calculations. During these meetings the performance of portfolios is being evaluated.

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4.3.8 Reinsurance ceded

AEGON takes out reinsurance for both its life and its non-life businesses in Central and Eastern Europe. This strategy is aimed at mitigating insurance risk. AEGON s companies in the region work only through large multinational reinsurers, which have well-established operations in the region.

The three most important reinsurance programs currently in force are (with retention levels indicated in parentheses):

- Property catastrophe excess of loss treaty (EUR 5.6 million);
- Motor third party liability excess of loss treaty (EUR 0.4 million);
- Property per risk excess of loss treaty (EUR 1.1 million).

The majority of treaties in force for AEGON s operations in Central and Eastern Europe are non-proportional excess of loss programs, except for the life reinsurance, which are done on surplus and quota-share basis (including various riders).

4.4. Asia

As elsewhere around the world, AEGON operates through a number of different sales channels in Asia. In Taiwan, AEGON has a network of more than 700 professional agents. In addition, AEGON Taiwan works through independent brokers and banks, and uses group, worksite and direct marketing to ensure customers are able to receive the financial products they want in a way that suits them best. Each of these channels provides products tailored to customers requirements and the market segments they serve.

Similarly, in China, AEGON works through agents, independent brokers, banks and direct marketing to sell its products. Agents and brokers in China distribute mainly life insurance products. Until recently, variable life products have been the most important product for AEGON s bank partners. Customer demand has now shifted to insurance and investment products with minimum guarantees, and AEGON is offering newly developed products to meet these requirements. Personal accidental products are the main products sold through the direct marketing channel.

Banks are becoming increasingly important in Asia as a means for distributing pensions, life insurance and other long-term savings and investment products. For this reason, AEGON has been striving in recent years to extend its bank distribution agreements in the region. AEGON now has partnerships in place with many of China s national banks, including:

- Industrial and Commercial Bank of China
- Agricultural Bank of China
- Communications Bank
- China Merchants Bank
- China Post

- Bank of China
- China CITIC Bank
- China Construction Bank
- Industrial Bank
- Standard Chartered Bank
- Bank of Shanghai
- Shanghai Pudong Development Bank
- Jiangsu Bank
- Bank of Ningbo

AEGON s bancassurance network in China now totals 874 outlets.

In December 2007, AEGON signed an agreement with Taishin Financial Holding Co. Ltd. to establish a life insurance and pension joint venture in Taiwan. Taishin, one of Taiwan s leading financial institutions, will hold 51 percent of the joint venture and AEGON the remaining 49 percent. The joint venture will distribute AEGON products through the extensive Taishin network, which includes Taishin Bank, Taishin Securities, Taishin Insurance Agency and Taishin Insurance Brokers and has a customer base of 4 million. The joint venture is expected to be operational by mid-2009, subject to final agreement, licensing and regulatory approval.

AIFMC was acquired in March 2008 and sells mutual fund investments via banks, security companies and via direct sales. Its key distributor includes Industrial and Commercial Bank of China (ICBC), Industrial Bank of China (IB), China Construction Bank (CCB) and Industrial Securities Co.

AEGON Religare started operations in mid 2008 and the focus has been on establishing a widespread national agency network. Currently the joint venture has opened 45 branches. In addition AEGON Religare is establishing strategic partnerships with other companies that are offer financial services to their clients. Existing products are tailored to meet the specific customer requirements.

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4.4.1 Life and protection

AEGON provides a broad range of life insurance products through its businesses in both Taiwan and China. These include unit-linked and traditional life products, as well as endowment, term, health, group life, accident and annuities.

Despite recent financial market turmoil, unit-linked products remain AEGON Taiwan s top-selling product lines after efforts were made in 2005 to improve the products and better adapt them to the needs of customers. These unit-linked products offer a wide variety of investment options, including access to AEGON s innovative stable value fund. The most significant guarantees in Taiwan relate to individual life products with fixed premiums. These products carry interest guarantees at various levels. The current new business provides interest guarantees mostly at 2%. The average in force guarantee rate is approximately 3.02%. Business issued in 2003 and prior also carries the Ministry of Finance Dividend that requires the insurance company to pay to the policyholder a dividend referring to industry mortality experience and the average two-year term deposit rates. Recently we have seen an increased policyholder demand for variable products with minimum guarantees.

AEGON-CNOOC launched its first variable life product in April 2007. In some cities like Shandong and Jiangsu, AEGON-CNOOC was the first insurer providing variable life product through bank partners. Due to the bull stock market, the share of variable life product increased very quickly and it was the top selling product in 2007. Although the stock market dropped dramatically in 2008 in China, significant sales in the first half of the year from variable life products made its share in 2008 at around 60% (CNY 700 million) of new business sold through the bancassurance channel. In 2009, due to the uncertain financial market and regulation strengthening sales practice on variable life products, sales are expected to shift to participating and universal life products with certain guarantees. The main products through the agency and broker channel are still universal life products with 2.5% minimum interest guarantee and participating life products with a 2.5% technical interest guarantee rate. Given the current financial market situation, these products are expected to remain strong in 2009. The core products sold via the direct marketing channel are one year renewable personal accidental products and traditional endowment products with 2.5% technical interest rate.

AEGON Religare started operations in 2008 with the launch of three term assurance and two unit-linked products.

4.4.2 Competition

Taiwan

Taiwan s life insurance market ranks number 10 in the world and number 4 in Asia in terms of total life premiums in 2007 (Source: Moody s Global Insurance Industry Outlook, September 2008). Between 2003 and 2008, life insurance premium income in Taiwan grew at an average 20% a year according to statistics released by the Life Insurance Association of Taiwan. At the end of 2008, there were 30 life insurance companies in Taiwan, 13 of which were domestic companies and 17 of which were branches of foreign companies. In 2008, new business premium income (on a cash premium basis) totaled at NTD 855 billion, an increase of 14% compared with 2007. The top five companies accounting for around 61%.

The Taiwanese bancassurance channel has continued to develop very rapidly with the introduction of new regulations facilitating the formation of financial holding companies, which allow banks to broaden their activities to include insurance. Taiwan s low interest rate environment has propelled an increase in sales of variable, participating, and interest-sensitive life and annuity products, which now dominate the market although there has been a recent increased interest in traditional products with interest rate guarantees. The retirement market is booming due to the aging population and the implementation of the Taiwan Pension Act in 2005.

Among all the foreign companies, AEGON ranked eighth in terms of new business premium income for the year of 2008 (Source: Life Insurance Association of the Republic Of Taiwan).

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China

AEGON-CNOOC

Since 1990, with the reform of China s economic system, China s insurance market is developing very quickly. At the end of 2007, there were 51 life insurers having businesses in China, among which 25 were foreign companies. Between 2003 and 2007 the Chinese life insurance market grew at an average 13.4% per year, with premiums totaling RMB 495 billion in 2007. China is now the third largest insurance market in Asia and the 8th largest worldwide (Source: Moody s Global Insurance Industry Outlook, September 2008).

The Chinese authorities are now allowing the integration of the financial sector and permit cross-among financial institutions. Banks can take controlling stakes in life insurers and vice versa. The lifting of restrictions on investments has enabled insurers to obtain better returns and more diversified portfolios of investments that correspond to the long-term nature of insurer obligations.

The top 5 life insurance companies control 85% of the market. Despite the introduction of bancassurance, tied agents remain the dominant distribution channel for life products. Bancassurance for most established life companies is complementary to their existing outlets. It is used more frequently by the newer insurers and some have been very successful in exploiting the reach and efficiencies of this channel. Market share of CNOOC is 0.2% as at December 31, 2008 and the 29th life insurer in China.

AIFMC

There are 62 fund management companies active in mainland China. These players are expanding in line with the development of the Chinese stock market. The main competitive factors are R&D power, fund performance, sales channels and clients satisfaction. Based on assets under management, AIFMC is ranked 27th as at December 31, 2008 whilst it ranked 2nd on the equity investing ability ranking (Source: Wind and TX Investment Consulting Co. Ltd).

India

Between 2004 and 2007, the Indian life insurance market grew significantly at an average 31.7 % per year. It is now the 11th largest insurance market world wide and the 5th in Asia. According to the IRDA annual report for 2006- 2007, there were 16 life insurers active in India in March 2007. Although penetration in the life sector has grown to 4.1% of GDP, there is still opportunity as the growing middle class is expected to propel growth (Source: Moody s Global Insurance Industry Outlook, September 2008).

Investment-linked products have become increasingly popular as customers have shifted away from traditional products as stock markets boomed over the last years. The agency force is still a major distribution channel, but life insurers are increasingly lining up with the banks to distribute their products.

The Life Insurance Company of India remains the dominant player in the market, even as the new private sector companies expand their market share and are expected to generate more than half of new business premiums in 2009. Indian government passed a bill end October 2008 that paves the way for foreign investors to take much larger stakes in domestic insurance companies. It proposes raising the limit for foreign direct investment from its current level of 26% to 49%.

AEGON Religare started operations in mid 2008 and the focus has been on establishing a widespread national agency network.

4.4.3 Regulation

Taiwan

AEGON Taiwan is subject to regulation and supervision by the Financial Supervisory Commission in Taiwan. Regulation covers the licensing of agents, the approval of insurance policies, the regulation of premium rates, the establishment of reserve requirements, the regulation of the type and amount of investments permitted, and the prescription of risk-based capital requirements.

China

China Insurance Regulatory Commission (CIRC) is the entity in regulating and supervising all insurance companies in China. CIRC promotes consumer protection, sets the regulation of premium rates and reserve requirements, and has the right to investigate the financial position and solvency of the life insurers.

For asset management companies, China Securities Regulatory Commission (CSRC) is the entity that regulates and supervises all securities and fund management companies in China.

India

The Indian life insurance companies are regulated by the Insurance Regulatory and Development Authority that is also responsible for the development of the Indian insurance market.

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4.4.4 Asset liability management

Taiwan

Asset liability management is an integral part of AEGON Taiwan s ongoing risk management process. AEGON Taiwan s asset liability management policy aims to achieve a reasonable match between the durations of assets and liabilities and to reduce total risk while achieving a reasonable investment yield. To achieve these objectives, specific risk limits are established for the investment portfolio. These take into account the general account liabilities as defined in AEGON Taiwan s investment policy statement.

China

A monthly asset liability management meeting is held to monitor duration and liquidity management. The duration of liabilities and assets are calculated separately by block and the duration-gap is analyzed. Considering that most insurance liabilities are derived from 5-year and whole life single-premium products, AEGON-CNOOC purchased corporate bonds, government bonds, and statutory deposits to match this liability while operating funds are invested in the short-term bond, money-market fund and bond repurchase markets in order to achieve higher investment returns.

The respective Risk and Capital Committees of AEGON Taiwan and AEGON-CNOOC meet every quarter to manage and monitor asset and liability matching using the result of stress-test scenarios based on Economic Capital Model, liquidity tests and duration mismatch tests.

4.4.5 Reinsurance ceded

Taiwan

AEGON Taiwan uses both local and international reinsurers to manage its mortality and morbidity risks. All of the company s leading reinsurers have a credit rating of AA- or above , except for Swiss Re (A+) and Central Reinsurance Company, or CRC. CRC is a formerly state-owned company. CRC s credit rating was upgraded in October 2006 from BBB+ to A- . This rating was reconfirmed in January 2009. AEGON Taiwan s reinsurance contracts cover quota share reinsurance, excess surplus risks and catastrophe concentration risks. The retention limit on any one individual life is currently NTD 5,000,000 (approximately EUR 111,000) for mortality risk.

AEGON Taiwan remains liable with respect to the amounts ceded if the reinsurer fails to meet the obligations it assumed. To minimize its exposure to reinsurer insolvencies, AEGON Taiwan monitors the creditworthiness of its reinsurers.

China

According to the CIRC regulations, AEGON-CNOOC cedes a quota share of accident and health business to China Reinsurance Company. The quota share for the business written in 2003, 2004 and 2005 was 15%, 10% and 5% respectively and decreased to 0% for the business written in 2006. This compulsory reinsurance requirement ended thereafter.

In addition, AEGON-CNOOC entered into several commercial reinsurance arrangements to achieve a diversification of risk and to limit the maximum loss on risks that exceeded policy retention limits. AEGON-CNOOC entered into reinsurance programs with Munich Re, Swiss Re, and General Re. The retention limit on any one individual life is generally RMB 200,000.

India

Reinsurance treaties have been signed with Munich Re and RGA Re.

4.5. Western Europe (Spain and France)

AEGON Spain focuses primarily on retail customers. It offers both life insurance and accident and health cover. In particular, AEGON Spain offers pensions as well as both traditional life and unit-linked variable life products, a market traditionally dominated by the country s retail banks. In France, AEGON has a partnership with La Mondiale since 2002 and works together with La Mondiale in a number of areas including pensions, asset management and distribution.

4.5.1. Spain

In Spain, over 70 percent of life insurance policies are sold through the country s retail banks. For this reason, Spain in recent years has been an important part of AEGON s efforts to expand its web of bank distribution partnerships. AEGON now has partnerships in place with five of Spain s leading savings banks, giving the Group access to nearly 1,800 branches across the country:

- Caja de Ahorros del Mediterráneo
- Caja Navarra
- Caja de Badajoz
- Caja Cantabria
- Caixa Terrassa

AEGON s partnership with Caja de Ahorros del Mediterraneo (CAM) goes back to 2004. CAM is Spain s sixth largest savings bank by profit and by number of branches. CAM has a network of more than 1,000 branches across the Valencia, Murcia and Catalonia provinces, as well as in Madrid and on the Balearic and Canary Islands. AEGON and CAM have a 49.99 respectively 50.01 percent interest in Mediterraneo Vida, the life insurance and pensions company that has exclusive access to CAM s branch network.

AEGON s partnership with Caja Navarra was signed in November 2005. Caja Navarra has a total of 276 branches in the north of Spain, close to the border with France. Under the agreement, AEGON has acquired a 50 percent interest in Caja Navarra s pension and life insurance business. AEGON and Caja Navarra are also exploring other areas of possible cooperation, including health insurance.

Caja de Badajoz has a network of some 200 branches, chiefly in the western region of Extremadura, which adjoins Spain s border with Portugal. Under the partnership, also agreed in 2005, AEGON and Caja de Badajoz have set up a 50/50 joint company to sell life insurance and pensions.

Caja Cantabria is one of the largest savings banks in northern Spain, with a total of 170 branches, located primarily in its home province of Cantabria.

With almost 300 branches, Caixa Terrassa is one of the largest savings banks in Catalonia. As a result of this new partnership, AEGON will become the sixth largest life insurer in Spain and will gain access to one of the wealthiest areas of Spain.

AEGON remains committed to further expanding its distribution network in Spain. The Group s current partnerships distribute a combination of life insurance and pension products. AEGON also uses brokers to distribute its products, particularly individual life insurance, throughout both urban and rural areas.

Competition

There is considerable competition in the Spanish market, major competitors are the bank-owned insurance companies for life and pension products, and foreign and local companies for health insurance products.

Regulation

The Dirección General de Seguros (DGS) is the regulatory authority for the Spanish insurance industry. Insurance companies are required to report to the DGS on a quarterly basis. Spanish regulations incorporate all the requirements of the relevant EU Directives. In terms of solvency margin, local regulations are based on a percentage of the reserves for the life insurance business and on a percentage of premiums for the health insurance business.

AEGON Spain s investment portfolio is regulated by Spanish law, which is based on the Third EU Directive (92/96/EEC). The regulation requires the appropriate matching of investments and technical provisions, and it also establishes the main characteristics of the assets that can be applied to asset liability management. There are limitations on the amounts that can be invested in unsecured loans, unquoted stocks, single investments in real estate, and a single loan or debtor.

Asset liability management

AEGON Spain s approach to asset liability management is to make projections of asset and liability cash flows, to calculate their present values using a market yield curve, and to compute the main parameters affecting these cash flows (e.g. duration and convexity, etc.). The goal is to lock in the spread by matching the duration of assets to the duration of liabilities.

Reinsurance ceded

AEGON Spain has proportional reinsurance protection in place for its individual risk policies and non-proportional protection for its group risk policies. This strategy is in line with standard practice within the insurance industry. With this approach, AEGON is seeking to diversify its insurance risk and limit the maximum possible losses on risks that exceed policy retention levels. Maximum retention levels vary by product and the nature of the risk being reinsured. Generally, however, the retention limit is between EUR 45,000 and EUR 60,000 per life insured. AEGON Spain remains contingently liable with respect to the amount ceded should the reinsurance company fail to meet its obligations.

AEGON Spain, generally, works only with reinsurance companies that have a credit rating from Standard & Poor s of at least A . To lessen its exposure to defaults, AEGON Spain regularly monitors the creditworthiness of its reinsurers. Where appropriate, additional protection is taken out through funds that are withheld for investment by the ceding company.

4.5.2. France

In 2002, AEGON signed a partnership with mutual insurer La Mondiale, one of France s largest providers of life insurance and pensions. AEGON and La Mondiale work together in a number of areas, including pensions, asset management and distribution. In 2005, the AEGON Pension Network was launched in collaboration with La Mondiale. As part of the partnership, AEGON took a 20 percent stake in La Mondiale s subsidiary La Mondiale Participations, increasing it later to 35 percent

AEGON s partnership with La Mondiale gives the Group a foothold in Europe s second largest insurance market. As in Spain, most life insurance in France more than 50 percent is sold via retail banks or La Poste, France s post office.

In July 2007, La Mondiale and fellow insurer AG2R announced a merger. The merger which will not affect AEGON s partnership with La Mondiale will create the country s eighth largest life insurer, serving some 5.8 million customers. The new group became operational at the start of 2008.

4C Organizational structure

AEGON N.V. is a holding company that operates through its subsidiaries. For a list of names and locations of the most important group companies, see Note 18.53 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

The main operating units of the AEGON Group are separate legal entities organized under the laws of their respective countries. The shares of those legal entities are directly or indirectly held by two intermediate holding companies incorporated under Dutch law: AEGON Nederland N.V., the parent company of the Dutch operations, and AEGON International B.V., which holds the Group companies of all countries except the Netherlands.

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4D Description of property

In the United States, AEGON owns many of the buildings that the company uses in the normal course of its business, primarily as offices. AEGON owns 18 offices located throughout the United States with a total square footage of 2.2 million. AEGON also leases space for various offices located throughout the United States under long-term leases with a total square footage of 1.9 million. AEGON s principal offices are located in Baltimore, Maryland; Cedar Rapids, Iowa; Louisville, Kentucky; Los Angeles, California; Frazer, Pennsylvania; St. Petersburg, Florida; Plano, Texas; Purchase, New York; and Charlotte, North Carolina.

Other principal offices owned by AEGON are located in Budapest, Hungary and Madrid, Spain. AEGON leases its headquarters and principal offices in the Netherlands, the United Kingdom and Canada under long-term leases. AEGON believes that its properties are adequate to meet its current needs.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.1 Introduction

AEGON is committed to providing information on key factors that drive its business and affect its financial condition, results and value. For a discussion of critical accounting policies see Application of Critical Accounting Policies IFRS Accounting Policies . For a discussion of our risk management methodologies see Item 11 Quantitative and Qualitative Disclosure About Market Risk and Item 18.4 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F included in this Report.

5.2 Application of Critical Accounting Policies IFRS Accounting Policies

The Operating and Financial Review and Prospects are based upon AEGON s consolidated financial statements, which have been prepared in accordance with IFRS. Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment are described in the following sections.

IAS 39 Financial Instruments: Recognition and Measurement was amended late in 2008 permitting companies with a choice to reclassify certain financial assets between categories, the effect of which would be to hold assets at deemed cost (cost determined during the third or fourth quarter of 2008) and discontinue mark-to-market valuation. Moreover, the IASB published clarifications in the fourth quarter of 2008 of valuation techniques in illiquid or distressed markets including describing additional situations when mark-to-model valuations would be appropriate. AEGON has not reclassified assets held as available-for-sale (AFS) to loans or held-to-maturity assets. Also, AEGON transferred a very limited amount of assets valued based on market prices to mark-to-model valuations, driven by current market developments.

i Valuation of assets and liabilities arising from life insurance contracts

General

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions or on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management s current estimates of future cash flows. To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in the failure of the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the failure relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity.

Some insurance contracts without a guaranteed or fixed contract term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC and VOBA assets, respectively, and are amortized to the income statement over time. If the assumptions relating to the future profitability of these policies are not realized, the amortization of these costs could be accelerated and may even require write offs due to unrecoverability.

Actuarial assumptions

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses. Depending on local accounting principles, surrender rates may be considered.

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate. For contracts insuring survivorship, allowance may be made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

Investment assumptions are either prescribed by the local regulator or based on management s future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation, if appropriate.

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. Credible own experience, as well as industry published data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

Reserve for guaranteed minimum benefits

See Item 5.2.iii of this Annual Report on Form 20-F for further discussion on guaranteed minimum benefits in our insurance products.

DPAC and VOBA

A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States, Canada and some of the smaller country units, is the annual long-term growth rate of the underlying assets. As equity markets do not move in a systematic manner, assumptions as to the long-term growth rate are made after considering the effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination. At December 31, 2008, the reversion to the mean assumptions for variable products, primarily variable annuities, were as follows in the United States: gross long-term equity growth rate of 9% (2007: 9%); gross short-term growth rate of 15% (2007: 6%); gross short- and long-term fixed security growth rate of 6% (2007: 6%); and the gross short- and long-term growth rate for money market funds of 3.5% (2007: 3.5%). The short-term equity growth rate was capped at 15% which caused an additional DPAC amortization of approximately EUR 250 million after tax.

A change in the short-term equity growth rate by 3% from 15% to 12% would impact DPAC and VOBA and related balances [1] by approximately EUR 360 million after tax. The DPAC and VOBA balances for these products in the United States and Canada amounted to EUR 2.1 billion at December 31, 2008.

For the fixed annuities and fixed universal life insurance products, the EGP calculations include a net interest rate margin, which we assume will remain practically stable under any reasonably likely interest-rate scenario.

The impact of a 5% increase in the mortality assumption would impact DPAC and VOBA balances by approximately EUR 10 million after tax. The impact of a 20% increase in the lapse assumption would impact DPAC and VOBA balances by approximately EUR 80 million after tax.

The impact of any reasonably likely changes in the other assumptions we use to determine EGP margins (i.e. maintenance expenses, inflation and disability) would impact DPAC and VOBA balances by less than EUR 20 million after tax per assumption change.

1 Related balances include sales inducement assets, unearned revenue liabilities and reserves for the guaranteed minimum death and optional living benefit features in the variable annuity products.

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DPAC

The movements in DPAC over 2008 compared to 2007 can be summarized and compared as follows:

In million EUR	2008	2007
At January 1	10,957	10,938
Costs deferred/rebates granted during the year	1,720	1,803
Amortization through income statement	(1,302)	(998)
Shadow accounting adjustments	1,396	117
Net exchange differences	(530)	(922)
Other	(17)	19
At December 31	**12,224**	**10,957**

In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Total
2008					
Life and protection	5,248	453	193	424	6,318
Individual savings and retirement products	2,217				2,217
Pensions and asset management		68	2,430		2,498
Institutional products	295				295
Life reinsurance	894				894
General insurance				2	2
At December 31	**8,654**	**521**	**2,623**	**426**	**12,224**

In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Total
2007					
Life and protection	4,519	535	231	474	5,759
Individual savings and retirement products	1,197				1,197
Pensions and asset management		77	2,916	1	2,994
Institutional products	219				219
Life reinsurance	786				786
General insurance				2	2
At December 31	**6,721**	**612**	**3,147**	**477**	**10,957**

VOBA

The movement in VOBA over 2008 can be summarized and compared to 2007 as follows:

In million EUR	2008	2007
At January 1	3,927	3,959
Additions	24	7
Acquisitions through business combinations	42	526
Amortization / depreciation through income statement	(212)	(210)

Shadow accounting adjustments	444	86
Net exchange differences	(106)	(333)
Other		(108)
At December 31	**4,119**	**3,927**

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In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Total
2008					
Life and protection	2,061	4	1	45	2,111
Individual savings and retirement products	361				361
Pensions and asset management	51	60	707	26	844
Institutional products	88				88
Life reinsurance	606				606
Distribution		109			109
Total VOBA	**3,167**	**173**	**708**	**71**	**4,119**

In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Total
2007					
Life and protection	1,739	5	2	22	1,768
Individual savings and retirement products	317				317
Pensions and asset management	46	65	953	15	1,079
Institutional products	54				54
Life reinsurance	607				607
Distribution		102			102
Total VOBA	**2,763**	**172**	**955**	**37**	**3,927**

ii Fair value of investments and derivatives determined using valuation techniques

Investment contracts issued by AEGON are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). These contracts are not quoted in active markets and their fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling or in relation to the unit price of the underlying assets. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments. Credit spread is considered in measuring the fair value of derivatives (including derivatives embedded in insurance contracts), borrowings and other liabilities.

Financial instruments

When available, AEGON uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data such as external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm s length basis. Although not necessarily determinative, indicators that a market is inactive are lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants, and accordingly, fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when AEGON determines the market is inactive for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to arrive at the price at which an orderly transaction would occur between market participants at the measurement date. Therefore, unobservable inputs reflect AEGON s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

AEGON employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized. Adjustments made to fair values as a result of the validation process are reported to senior management. Further details of the validation processes are set out below.

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Shares

Fair values for unquoted shares are estimated using observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Illiquidity adjustments are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including, but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

The fair values of investments held in non-quoted investment funds (hedge funds, private equity funds) are determined by management after taking into consideration information provided by the fund managers. AEGON reviews the valuations each month and performs analytical procedures and trending analyses to ensure the fair values are appropriate.

Debt securities

When available, AEGON uses quoted market prices in active markets to determine the fair value of its debt securities. These market quotes are obtained through index prices or pricing services.

The fair values of debt securities (including ABS Housing, RMBS, CMBS and CDO securities) are determined by management after taking into consideration several sources of data. AEGON s valuation policy dictates that publicly available prices are initially sought from several third party pricing services. In the event that pricing is not available from these services, those securities are submitted to brokers to obtain quotes. The majority of brokers quotes are non-binding. As part of the pricing process AEGON assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows. Only pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third party pricing services will often determine prices using recently reported trades for identical or similar securities. The pricing service makes adjustments for the elapsed time from the trade date to the balance sheet date to take into account available market information. Lacking recently reported trades, third party pricing services and brokers will use modeling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate. Also included within the modeling techniques for ABS Housing, RMBS, CMBS and CDO securities are estimates of the speed at which principal will be repaid over their remaining lives. These estimates are determined based on historical repayment speeds (adjusted for current markets) as well as the structural characteristics of each security.

Each month, AEGON performs an analysis of the inputs obtained from third party services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. AEGON s asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events.

Credit ratings are an important consideration in the valuation of securities and are included in the internal process for determining AEGON s view of the risk associated with each security. However, AEGON does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining AEGON s view of the risks associated with each security.

AEGON s portfolio of private placement securities (held at fair value under the classification of available-for-sale) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, AEGON s asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and an illiquidity premium to account for the illiquid nature of these securities. The illiquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the illiquidity premium for private placement securities in 2008 and 2007 to the overall valuation is insignificant.

Mortgages, policy loans and private loans (held at amortized cost)

For private loans, fixed interest mortgage and other loans originated by the Group, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield, credit quality and maturity characteristics.

The fair value of floating interest rate mortgages, policy loans and private placements used for disclosure purposes is assumed to be approximated by their carrying amount adjusted for changes in credit risk, where appropriate, based on market observable credit spreads.

Money market and other short term investments and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk, where appropriate, based on market observable credit spreads.

Financial derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

AEGON normally mitigates credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA master netting agreements for each of the Group s legal entities to facilitate AEGON s right to offset credit risk exposure. Where appropriate collateral is not held by AEGON or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

iii Guarantees in insurance contracts

For financial reporting purposes AEGON distinguishes between the following types of minimum guarantees:

1) Financial guarantees: these guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (please refer to Notes 18.2.10 and 18.3 of the notes to our consolidated financial statements in Item 18 of this Annual Report).

2) Total return annuities: these guarantees are not bifurcated from their host contracts because they are valued at fair value and presented as part of insurance contracts (please refer to Note 18.2.19 of the notes to our consolidated financial statements in Item 18 of this Annual Report);

3) Life contingent guarantees in the United States: these guarantees are not bifurcated from their host contracts, valued in accordance with insurance accounting (SOP 03-1 Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts) and presented together with insurance liabilities (please refer to Notes 18.2.19 and 18.3 of the notes to our consolidated financial statements in Item 18 of this Annual Report); and

4) Life contingent guarantees in the Netherlands: these guarantees are not bifurcated from their host contracts, valued at fair value (the accounting policy for these guarantees was changed to fair value in 2007) and presented together with the underlying insurance contracts (please refer to Notes 18.2.19 and 18.3 of the notes to our consolidated financial statements in Item 18 of this Annual Report).

In addition to the guarantees mentioned above, AEGON has traditional life insurance contracts that include minimum guarantees that are not valued explicitly; however, the adequacy of all insurance liabilities, net of VOBA and DPAC, are assessed periodically (please refer to Note 18.2.19 of the notes to our consolidated financial statements in Item 18 of this Annual Report).

a. Financial guarantees

In the United States and United Kingdom, a guaranteed minimum withdrawal benefit (GMWB) is offered directly on some variable annuity products AEGON issues and is also assumed from a ceding company. Variable annuities allow a customer to provide for the future on a tax-deferred basis and to participate in equity or bond market performance. Variable annuities allow a customer to select payout options designed to help meet the customer s need for income upon maturity, including lump sum payment or income for life or for a period of time. This benefit guarantees that a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or during the life of the policyholder.

In Canada, variable products sold are known as Segregated Funds . Segregated funds are similar to variable annuities, except that they include a capital protection guarantee for mortality and maturity benefits (guaranteed minimum accumulation benefits). The initial guarantee period is ten years. The ten-year period may be reset at the contractholder s option for certain products to lock-in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited

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number of times per year. The management expense ratio charged to the funds is not guaranteed and can be increased at management s discretion.

In The Netherlands, individual variable unit linked products have a minimum benefit guarantee if premiums are invested in certain funds. The initial guarantee period is 10 years and may be reset at the policyholder s option to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio charged to the funds is not guaranteed and can be increased at management s discretion. The sum insured at maturity or upon the death of the beneficiary has a minimum guaranteed return (in the range of 3% to 4%) if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income funds. No guarantees are given for equity investments only.

The following table provides information on the liabilities for financial guarantees for minimum benefits:

In million EUR	United States[1]	Canada[1]	UK	The Netherlands[2]	2008 Total[3]	United States[1]	Canada[1]	UK	The Netherlands[2]	2007 Total
At January 1	(18)	595		377	954	(28)	492		275	739
Acquired through business combinations						13				13
Incurred guarantee benefits	350	580	28	779	1,737	(5)	75		102	172
Paid guarantee benefits		(11)			(11)		(2)			(2)
Net exchange differences	18	(136)	(5)		(123)	2	30			32
At December 31	**350**	**1,028**	**23**	**1,156**	**2,557**	**(18)**	**595**		**377**	**954**

In million EUR at December 31	United States[1]	Canada[1]	UK	The Netherlands[2]	2008 Total	United States[1]	Canada[1]	UK	The Netherlands[2]	2007 Total
Account value	3,395	1,993	258	5,763	11,409	3,623	3,423		6,675	13,721
Net amount at risk[4]	1,007	930	23	554	2,514	11	619		62	692

1 Guaranteed minimum accumulation and withdrawal benefits
2 Fund plan and unit-linked guarantees
3 Balances are included in the derivatives liabilities on the face of the balance sheet; (please refer to Note 18.9 of the notes to our consolidated financial statements in Item 18 of this Annual Report)
4 The net amount at risk represents the difference between the maximum amount payable under the guarantees and the account value

In addition AEGON reinsures the elective guaranteed minimum withdrawal benefit rider issued with a ceding company s variable annuity contracts. The rider is essentially a return of premium guarantee, which is payable over a period of at least fourteen years from the date that the policyholder elects to start withdrawals. At contract inception, the guaranteed remaining balance is equal to the premium payment. The periodic withdrawal is paid by the ceding company until the account value is insufficient to cover additional withdrawals. Once the account value is exhausted, AEGON pays the periodic withdrawals until the guaranteed remaining balance is exhausted. At December 31, 2008, the reinsured account value was EUR 4.2 billion (2007: EUR 6.9 billion) and the guaranteed remaining balance was EUR 4.6 billion (2007: EUR 4.5 billion).

The reinsurance contract is accounted for as a derivative and is carried in AEGON s balance sheet at fair value. At December 31, 2008, the contract had a value of EUR 442 million (2007: EUR 1 million). AEGON entered into a derivative program to mitigate the overall exposure to equity market and interest rate risks associated with the reinsurance contract. This program involves selling S&P 500 futures contracts to mitigate the effect of equity market movement on the reinsurance contract and the purchase of over-the-counter interest rate swaps to mitigate the effect of movements in interest rates on the reinsurance contracts.

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b. Total return annuities

Total Return Annuity (TRA) is an annuity product in the United States which provides customers with a pass-through of the total return on an underlying portfolio of investment securities (typically a mix of corporate and convertible bonds) subject to a cumulative minimum guarantee. Both the assets and liabilities are carried at fair value, however, due to the minimum guarantee not all of the changes in the market value of the asset will be offset in the valuation of the liability. This product exists in both the fixed annuity and life reinsurance lines of business and in both cases represents closed blocks.

Product balances as of December 31, 2008 were EUR 790 million in fixed annuities (2007: EUR 1,000 million) and EUR 300 million in life reinsurance (2007: EUR 350 million).

c. Life contingent guarantees in the United States

Certain variable insurance contracts in the United States also provide guaranteed minimum death benefits (GMDB) and guaranteed minimum income benefits (GMIB). Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The net amount at risk for GMDB contracts is defined as the current guaranteed minimum death benefit in excess of the capital account balance at the balance sheet date.

The guaranteed minimum income benefit feature provides for minimum payments if the contractholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the contractholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value.

The additional liability for guaranteed minimum benefits that are not bifurcated are determined (based on SOP 03-1) each period by estimating the expected value of benefits in excess of the projected account balance and recognizing the excess over the accumulation period based on total expected assessments. The estimates are reviewed regularly and any resulting adjustment to the additional liability is recognized in the income statement. The benefits used in calculating the liabilities are based on the average benefits payable over a range of stochastic scenarios. Where applicable, the calculation of the liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts.

	2008			2007		
In million EUR	**GMDB[1]**	**GMIB[2]**	**Total[4]**	**GMDB[1]**	**GMIB[2]**	**Total[4]**
At January 1	188	121	309	117	123	240
Acquired through business combinations				56	1	57
Incurred guarantee benefits	308	306	614	48	16	64
Paid guarantee benefits	(95)	(7)	(102)	(29)	(14)	(43)
Net exchange differences	8	14	22	(4)	(5)	(9)
At December 31	**409**	**434**	**843**	**188**	**121**	**309**

	2008			2007		
In million EUR at December 31	**GMDB[1]**	**GMIB[2]**	**Total[3]**	**GMDB[1]**	**GMIB[2]**	**Total[3]**
Account value	21,177	5,758	26,935	26,646	8,798	35,444
Net amount at risk[5]	8,025	1,934	9,959	1,833	229	2,062
Average attained age of contractholders	65	64		65	63	

1 Guaranteed minimum death benefit in the United States
2 Guaranteed minimum income benefit in the United States
3 Note that the variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive
4 Balances are included in the insurance liabilities on the face of the balance sheet (please refer to note 18.20 of the notes to our consolidated financial statements in Item 18 of this Annual Report)
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The net amount at risk is defined as the present value of the minimum guaranteed annuity payments available to the contract holder determined in accordance with the terms of the contract in excess of the current account balance

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d. Life contingent guarantees in the Netherlands

The group pension contracts offered by AEGON in the Netherlands include large group contracts that have an individually determined asset investment strategy underlying the pension contract. The guarantee given is that the profit sharing is the minimum of 0% or the realized return (on an amortized cost basis), both adjusted for technical interest rates ranging from 3% to 4%. If there is a negative profit sharing, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premiums are fixed over this period. Separate account guaranteed group contracts provide a guarantee on the benefits paid.

The traditional life and pension products offered by AEGON in the Netherlands include various products that accumulate a cash value. Premiums are paid by customers at inception or over the term of the contract. The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product. Minimum interest guarantees exist for all generations of accumulation products written, except for universal life type products for which premiums are invested solely in equity funds. Older generations contain a 4% guarantee; in recent years the guarantee has decreased to 3%.

These products are valued at fair value and are included as part of insurance liabilities with the underlying host insurance contracts in note 18.20 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts.

In million EUR	2008 GMB[1,2]	2007 GMB[1,2]
At January 1	436	768
Incurred guarantee benefits	1,974	(332)
At December 31	**2,410**	**436**
Account value	13,071	13,089
Net amount at risk[3]	779	54

1 Guaranteed minimum benefit in the Netherlands

2 Balances are included in the insurance liabilities on the face of the balance sheet (please refer to Note 18.20 of the notes to our consolidated financial statements in Item 18 of this Annual Report)

3 The net amount at risk represents the difference between the maximum amount payable under the guarantees and the account value

Fair value measurement of guarantees in insurance contracts

The fair values of guarantees mentioned above (with the exception of life contingent guarantees in the United States) are calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the long-term nature of these guarantees, their fair values are determined by using complex valuation techniques. Because of the dynamic and complex nature of these cash flows, AEGON uses stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market rates of return, equity and interest rate volatility, credit risk, correlations of market returns, discount rates and actuarial assumptions.

Since the price of these guarantees is not quoted in any market, the fair value of these guarantees is computed using valuation models which use observable market data supplemented with the Group s assumptions on developments in future interest rates, volatility in equity prices and other risks inherent in financial markets. All the assumptions used as part of this valuation model are calibrated against actual historical developments observed in the markets. Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability has been reflected within the category Valuation techniques not based on observable market data of the fair value hierarchy. Please refer to Notes 18.3 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for more details on

AEGON s fair value hierarchy.

The expected returns are based on risk-free rates, such as the current London Inter-Bank Offered Rate (LIBOR) forward curve. AEGON added a premium to reflect the credit spread as required. The credit spread is set by using the credit default swap (CDS) spreads of a reference portfolio of life insurance companies, adjusted to reflect the subordination of senior debt holders at the holding company level to the position of policyholders at the operating company level (who have priority in payments to other creditors). Because CDS spreads for United States life insurers differed significantly from that for European life insurers, AEGON s assumptions

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reflect these differences in the valuation. If the credit spreads were 20 basis points higher or lower respectively, and holding all other variables constant in the valuation model, 2008 income before tax would have been EUR 255 million higher or lower.

For equity volatility, AEGON uses a term structure with market based implied volatility inputs for the first five years. Correlations of market returns across underlying indices are based on actual observed market returns and their inter-relationships over a number of years preceding the valuation date. The volume of observable option trading from which volatilities are implied diminishes markedly after five years, and therefore, AEGON uses a volatility curve which grades from actual implied volatilities for five years to a long-term forward rate of 25%. Certain AEGON subsidiaries previously used a single parameter approach for equity volatilities and moved to a term structure in 2008. Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities. Had AEGON used a long term equity implied volatility assumption that was 5 volatility points higher or lower, the impact on income before tax would have been a decrease or increase of EUR 100 million, respectively, in 2008 IFRS income before tax.

These assumptions are reviewed at each valuation date, and updated based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions.

AEGON utilizes different risk management strategies to mitigate the financial impact of the valuation of these guarantees on the results including asset and liability management and derivative hedging strategies to hedge certain aspects of the market risks embedded in these guarantees. Guarantees valued at fair value contributed a net loss before tax of EUR 0.7 billion to operating earnings. This net loss is attributable to an increase in the total guarantee reserves of EUR 4.3 billion. The main drivers of this increase are EUR 1.1 billion related to a decrease in equity markets, EUR 0.8 billion related to increases in equity volatilities and EUR 3.5 billion related to decreases in risk free rates offset by EUR 1.2 billion related to the increase in the spread of credit risk. Hedges related to these guarantee reserves contributed fair value gains of EUR 3.6 billion to income before tax.

iv Fair value measurement

The fair values of the general account financial instruments carried at fair value were determined as follows:

In EUR million	Published price quotations in an active market [1]	Valuation technique based on market observable inputs [2]	Valuation techniques not based on observable market data [3]	2008 Total	Published price quotations in an active market [1]	Valuation technique based on market observable inputs [2]	Valuation techniques not based on observable market data [3]	2007 Total
Shares	1,467	841	294	2,602	2,502	1,187	246	3,935
Debt securities	28,753	64,946	1,066	94,765	58,556	39,538	379	98,473
Other investments at fair value	17	746	2,220	2,983	25	1,369	2,109	3,503
Derivatives	34	4,001	(3,099)	936	24	(259)	(610)	(845)
Borrowings		845		845		980		980

1 Included in this category are financial assets and liabilities that are measured by reference to quoted prices in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm s length basis. Main assets included in this category are financial assets for which the fair value is determined by management using various inputs, including pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

2 Included in this category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same or a similar instrument or based on available market data. Main assets included in this category are financial assets for which pricing is determined by management based on various market observable inputs but may include insignificant assumptions which are not observable, such as the illiquidity premium assumption used in the valuation of private placements.

[3] Not based upon market observable input means that fair values are determined by management in whole or in part using a using a valuation technique (model) for which a significant input is not based on observable market data. A significant input is an input that is significant to the fair value measurement in its entirely. Main assets in this category are hedge funds, private equity funds and limited partnerships. In addition bifurcated embedded derivatives related to guarantees in insurance contracts are included.

Other than disclosed in note 18.47 of the notes to our consolidated financial statements in Item 18 of this Annual Report, the potential effect of using reasonable possible alternative assumptions for valuing financial instruments would not have a significant impact on AEGON s net income (loss).

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The total net amount of changes in fair value recognized in net income (loss) of the financial instruments of which the valuation technique includes non market observable inputs amount to a pre-tax loss of EUR 1,301 million (2007: EUR 57 million).

The table below sets out further detail on how the fair values of the general account financial assets carried at fair value were determined as of December 31, 2008.

in EUR million	Valuation technique-based on market observable inputs	Valuation technique-not based on market observable inputs
Broker quotes and fund managers (Indicative market prices)	8,288	1,848
Pricing services (Industry standard pricing methodologies)	55,588	417
Internally developed models	7,503	(1,783)

v Impairment of financial assets

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Group s assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Group or changes in other facts and circumstances will lead the Group to change its investment decision. Any of these situations could result in a charge against the income statement in a future period to the extent of the impairment charge recorded.

Debt instruments

Debt instruments are impaired when it is considered probable that not all amounts due will be collected as scheduled. Factors considered include industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, nationally recognized credit rating declines and a breach of contract.

The amortized cost and fair value of bonds, money market investments and other are as follows as of December 31, 2008 included in our available-for-sale (AFS) and held to maturity portfolios:

In million EUR	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
United States Government	3,573	458	(25)	4,006	2,848	1,158
Dutch Government	1,787	89		1,876	1,876	
Other Government	15,815	1,241	(345)	16,711	14,685	2,026
Mortgage backed securities	13,046	38	(3,850)	9,234	1,273	7,961
Asset backed securities	11,396	16	(3,415)	7,997	561	7,436
Corporate	54,405	662	(8,483)	46,584	11,060	35,524
Money market investments	8,318			8,318	8,266	52
Other	974	121	(114)	981	553	428
Total	**109,314**	**2,625**	**(16,232)**	**95,707**	**41,122**	**54,585**
Of which held by AEGON Americas, NL and UK	104,442	2,361	(15,950)	90,853	37,874	52,979

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Unrealized Bond Losses by Sector

The composition by industry categories of bonds and money market investments that are included in our available-for-sale and held to maturity portfolios in an unrealized loss position held by AEGON at December 31, 2008 is presented in the table below.

Unrealized losses bonds and money market investments

In million EUR	Carrying value of instruments with unrealized losses 2008	Gross unrealized losses 2008
Residential mortgage backed securities	3,395	(2,002)
Commercial mortgage backed securities	4,531	(1,848)
Asset Backed Securities (ABSs) Housing Related	1,599	(1,036)
ABSs Credit Cards	2,144	(1,039)
ABSs Aircraft	63	(52)
ABSs CBOs	715	(355)
ABSs Other	2,950	(933)
Financial Industry Banking	6,612	(2,361)
Financial Industry Brokerage	533	(104)
Financial Industry Finance companies	189	(85)
Financial Industry Insurance	2,565	(942)
Financial Industry Reits	935	(407)
Financial Industry Financial other	1,326	(352)
Industrial Basic Industry	1,823	(494)
Industrial Capital Goods	1,932	(417)
Industrial Consumer cyclical	2,387	(600)
Industrial Consumer non-cyclical	3,979	(470)
Industrial Energy	2,397	(439)
Industrial Technology	791	(227)
Industrial Transportation	1,075	(175)
Industrial Communications	3,708	(638)
Industrial Industrial other	447	(94)
Utility Electric	2,930	(360)
Utility Natural gas	1,461	(256)
Utility Utility other	518	(62)
Sovereign exposure	3,186	(370)
Total	**54,191**	**(16,118)**
Of which held by AEGON Americas, NL and UK	52,562	(15,837)

AEGON regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) nationally recognized credit rating agency downgrades. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled.

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The following narrative discussion relates to AEGON Americas, AEGON The Netherlands and AEGON UK. The composition by industry categories of bonds and money market investments in an unrealized loss position held by AEGON Americas, AEGON the Netherlands and AEGON UK at December 31, 2008, is presented in the table below.

Unrealized losses bonds and money market investments held by AEGON Americas, AEGON The Netherlands and AEGON UK

In million EUR	Carrying value of instruments with unrealized losses 2008	Gross unrealized losses 2008
Residential mortgage backed securities	3,395	(2,002)
Commercial mortgage backed securities	4,520	(1,847)
Asset Backed Securities (ABSs) Housing Related	1,564	(1,035)
ABSs Credit Cards	2,144	(1,039)
ABSs Aircraft	63	(52)
ABSs CBOs	715	(355)
ABSs Other	2,950	(932)
Financial Industry Banking	6,295	(2,280)
Financial Industry Brokerage	533	(104)
Financial Industry Finance companies	184	(85)
Financial Industry Insurance	2,512	(923)
Financial Industry Reits	935	(407)
Financial Industry Financial other	1,132	(297)
Industrial Basic Industry	1,814	(494)
Industrial Capital Goods	1,929	(417)
Industrial Consumer cyclical	2,371	(596)
Industrial Consumer non-cyclical	3,911	(467)
Industrial Energy	2,351	(434)
Industrial Technology	791	(227)
Industrial Transportation	1,058	(174)
Industrial Communications	3,677	(636)
Industrial Industrial other	393	(91)
Utility Electric	2,853	(355)
Utility Natural gas	1,455	(256)
Utility Utility other	506	(62)
Sovereign exposure	2,511	(270)
Total	**52,562**	**(15,837)**

The available for sale net unrealized loss position increased by EUR 13.0 billion since December 31, 2007 primarily as a result of credit spread widening, partially offset by declining interest rates and impairments.

The information presented above is subject to rapidly changing conditions. As such, AEGON expects that the level of securities with overall unrealized losses will fluctuate. The recent volatility of financial market conditions has resulted in increased recognition of both investment gains and losses, as portfolio risks are adjusted through sales and purchases.

As of December 31, 2008, there are EUR 2,240 million of gross unrealized gains and EUR 15,837 million of gross unrealized losses in the AFS bonds portfolio of AEGON Americas, AEGON The Netherlands and AEGON UK. No one issuer represents more than 2% of the total unrealized loss position. The largest single issuer unrealized loss is EUR 304 million and relates to a securitized portfolio of credit card securities that contains fixed income positions of investment grade quality.

Financial and credit market conditions were under extreme stress during 2008 as credit spreads widened to, in many cases, unprecedented levels. The subprime mortgage collapse, followed by tightened credit conditions and subsequent failures among firms in the bank and finance sectors have driven the US and many developed nations into recession and have threatened the entire global economy. Governments across the world have attempted to stabilize market liquidity and investor confidence via extraordinary measures, including providing substantial support to banks and insurance companies. In addition, massive governmental stimulus efforts are underway to halt falling economic growth rates. In the US, the

Federal Reserve has essentially reduced its target short term interest rate to zero and has initiated quantitative easing (method of increasing the supply of money in the banking system) in an effort to support the markets and the economy. Longer term interest rates have fallen as well with the market abandoning fears of inflation in light of apparent economic weakness. Treasuries were one of the few asset classes with positive returns in 2008. Nearly every world stock market fell dramatically in 2008 as the risks to economic growth were realized. Unemployment has been rising in most developed

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nations, and corporate default rates are also increasing. Reacting to the potential for reduced demand due to slowing economic growth, commodities fell sharply in the latter half of 2008. Oil was particularly volatile as it spiked to new highs in the first half of the year only to fall to multi-year lows by year-end. In most markets volatility remains high and liquidity is constrained.

The following is a description of AEGON s significant unrealized loss positions by industry sector as of December 31, 2008:

Residential mortgage backed securities

AEGON Americas, AEGON The Netherlands and AEGON UK hold EUR 4,754 million of residential mortgage-backed securities (RMBS), of which EUR 3,791 million is held by AEGON USA and EUR 963 million by AEGON The Netherlands. Residential mortgage-backed securities are securitizations of underlying pools of non-commercial mortgages on real estate. The underlying residential mortgages have varying credit ratings and are pooled together and sold in tranches. AEGON s RMBS includes collateralized mortgage obligations (CMOs), government sponsored enterprise (GSE) guaranteed passthroughs, whole loan passthroughs, Alt-A MBS and negative amortization MBS. The following table shows the breakdown of AEGON USA s RMBS.

In million EUR	AAA SSNR[1]	AAA SNR[2]	AAA Mezz[3]	AAA SSUP[4]	AA	A	BBB	<BBB	2008 Amortized Cost	2008 Market Value
GSE guaranteed		1,391							1,391	1,398
Whole loan	229	525	7	9	13	71	40	20	914	650
Alt-A	739	269			14	60	63	122	1,267	743
Negative Amortization floater	1,459	30	8	47	19	16		106	1,685	711
Reverse Mortgage floater		381							381	289
Total RMBS	2,427	2,596	15	56	46	147	103	248	5,638	3,791

1 SSNR - super senior
2 SNR - senior
3 Mezz - mezzanine
4 SSUP - senior support

All RMBS securities of AEGON USA are monitored and reviewed on a monthly basis with detailed modeling completed on each portfolio quarterly. Model output is generated under base and several stress-case scenarios. RMBS asset specialists utilize widely recognized industry modeling software to perform a loan-by-loan, bottom-up approach to modeling. Models incorporate external loan-level analytics to identify the riskiest securities. The results from the models are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. Positions are impaired to fair value where loss events have taken place (or are projected to take place on structured securities) that would affect future cash flows.

The total unrealized loss on RMBS is EUR 2,002 million, of which EUR 1,847 million relates to positions of AEGON USA. Of the RMBS unrealized losses, EUR 282 million is attributed to the AAA rated generic shelf name, Countrywide Alternative Loan Trust. AEGON owns EUR 547 million securities under the Countrywide Alternative Loan Trust name, with each deal containing its own unique pool of collateral and representing a separate and distinct trust. The combination of low floating-rate reset margins, slow prepayment speeds, severe illiquidity in the market for near-prime securities, and the unprecedented level of mortgage-related credit spread widening have pushed the overall market value as a percent of book on those RMBS bonds in an unrealized loss position to 52%.

Alt-A Mortgage Exposure

AEGON s RMBS exposure includes exposure to securitized home equity loans (Alt-A positions). This portfolio totals EUR 743 million at December 31, 2008. Unrealized losses amount to EUR 524 million at December 31, 2008. Alt-A loans are made to borrowers whose qualifying mortgage characteristics do not meet the standard underwriting criteria established by the GSEs (Government-Sponsored Enterprises). The typical Alt-A borrower has a credit score high enough to obtain an A standing, which is especially important since the score must compensate for the lack of other necessary documentation related to borrower income and/or assets.

AEGON s investments in Alt-A mortgages are in the form of mortgage backed securities. AEGON's Alt-A investments are primarily backed by loans with fixed interest rates for the entire term of the loan. Additionally, one-third of the Alt-A portfolio is invested in super-senior tranches. Mortgage-backed securities classified as super-senior are those that substantially exceed the subordination requirements of AAA-rated securities. The tables below summarize the credit quality of the underlying loans backing the securities and the vintage year.

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In million EUR	2008	
Rating	Market Value	%
AAA	606	81.6
AA	9	1.2
A	29	3.9
BBB	28	3.8
High Yield	71	9.5
At December 31	**743**	**100.0**

In million EUR	2008	
Vintage	Market Value	%
Prior 2005	65	8.8
2005	123	16.5
2006	176	23.7
2007	238	32.0
2008	141	19.0
At December 31	**743**	**100.0**

Negative Amortization (Option ARMs) Mortgage Exposure

As part of AEGON s RMBS Exposure, AEGON holds EUR 711 million of Negative Amortization mortgages, unrealized losses on this portfolio amount to EUR 974 million at December 31, 2008. Negative amortization mortgages (also known as option ARMs) are loans whereby the payment made by the borrower is less than the accrued interest due and the difference is added to the loan balance. When the accrued balance of the loan reaches the negative amortization limit (typically 110% to 125% of the original loan amount), the loan recalibrates to a fully amortizing level and a new minimum payment amount is determined. The homeowner s new minimum payment amount can be significantly higher than the original minimum payment amount. The timing of when these loans reach their negative amortization cap will vary, and is a function of the accrual rate on each loan, the minimum payment rate on each loan and the negative amortization limit itself. Typically, these loans are estimated to reach their negative amortization limit between 3 and 5 years from the date of origination.

AEGON s exposure to negative amortization mortgages is primarily AAA rated, with a significant portion of these positions being super-senior AAA rated securities. The following table provides the market values of the Negative Amortization (Option ARMs) exposure by rating and by vintage.

In million EUR	2008	
Rating	Market Value	%
AAA	651	91.5
AA	5	0.7
A	2	0.3
High Yield	53	7.5
At December 31	**711**	**100.0**

In million EUR	2008	
Vintage	Market Value	%
2004 & Prior	24	3.4
2005	197	27.7
2006	276	38.8
2007	184	25.9
2008	30	4.2
At December 31	**711**	**100.0**

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There are two individual issuers rated below investment grade in this sub-sector which haven unrealized loss position greater than EUR 25 million.

In million EUR	Market value	Unrealized loss	Rating
Countrywide ALT LN 2006-34	28	(29)	B
Residential ACC LN IN 2006-Q04	4	(27)	B

For each of these holdings, the collateral pools have experienced higher than expected delinquencies and losses, and the unrealized loss is further exacerbated by the impact of declining home values on borrowers using affordability products. Further impacting the unrealized losses is spread widening due to illiquidity as well as increased extension risk due to slower than expected prepayments. Despite the continued decline in the margin of safety on these securities during 2008, cash flow models indicate full recovery of principal and interest for each of AEGON s particular holdings in an unrealized loss position.

As the remaining unrealized losses in the RMBS portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as of December 31, 2008.

There are no other individual issuers rated below investment grade in the RMBS sector which have unrealized loss positions greater than EUR 25 million.

Commercial mortgage backed securities

AEGON Americas, AEGON The Netherlands and AEGON UK hold EUR 4,717 million of commercial mortgage-backed securities (RMBS), of which EUR 4,468 million is held by AEGON USA, EUR 55 million by AEGON The Netherlands and EUR 194 million by AEGON UK. Commercial mortgage-backed securities (CMBS) are securitizations of underlying pools of mortgages on commercial real estate. The underlying mortgages have varying risk characteristics and are pooled together and sold in different rated tranches. The Company s CMBS includes conduit, large loan, single borrower, collateral debt obligations (CDOs), government agency, and franchise loan receivable trusts. The breakdown by quality of the CMBS exposure of AEGON USA is as follows:

CMBS exposure by

Quality

In million EUR	AAA	AA	A	BBB	< BBB	2008 Cost price	2008 Market value
CMBS	5,247	553	170	103	16	6,089	4,372
CMBS and CRE CDOs	107	44	27	18		196	96
At December 31	**5,354**	**597**	**197**	**121**	**16**	**6,285**	**4,468**

All CMBS securities of AEGON USA are monitored and modeled under base and several stress-case scenarios by asset specialists. For conduit securities, a widely recognized industry modeling software is used to perform a loan-by-loan, bottom-up approach. For non-conduit securities a CMBS asset specialist works closely with AEGON s real estate valuation group to determine underlying asset valuation and risk. Both methodologies incorporate external estimates on the property market, capital markets, property cash flows, and loan structure. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. If cash flow models indicate a credit event will impact future cash flows, the security is impaired to fair value.

The total unrealized loss on CMBS is EUR 1,817 million. Current delinquencies in the CMBS universe remain relatively low in spite of the recent upward trend caused by the deterioration in the fundamentals of the commercial real estate market. The introduction of the 20% and 30% credit enhanced, super senior AAA classes provide an offset to these negative fundamentals. The lending market has become virtually frozen as lenders have become more conservative with underwriting standards, property transactions have diminished greatly, and higher mortgage spreads have curtailed lending. A lack of liquidity in the market combined with a broad re-pricing of risk has led to increased credit spreads across the credit classes.

Of the CMBS unrealized loss, over 16% is attributed to the Lehman Brothers and UBS origination platform (LBUBS) deal shelf which is collateralized by diversified mortgages. The unrealized losses are primarily a function of the overall size of our LBUBS holdings, EUR 0.9 billion, and are not due to specific pool performance but relate to diminished demand over the last few months of 2008 for low investment grade CMBS paper and historic widening of credit spreads. AEGON believes that the underlying investments are well underwritten and have performed relatively better than other comparable CMBS structures. Most of the securities in an unrealized loss position are rated investment grade. As the remaining unrealized losses in the CMBS portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as of December 31, 2008.

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There are no other individual issues rated below investment grade in this sector which have unrealized loss positions greater than EUR 25 million.

Asset Backed Securities

ABS Housing

AEGON holds EUR 1,823 million of ABS-Housing securities, of which EUR 1,752 million is held by AEGON USA. The unrealized loss on the ABS-housing securities amounts to EUR 1,035 million. ABS Housing securities are secured by pools of residential mortgage loans primarily those which are categorized as sub prime. The unrealized loss is primarily due to decreased liquidity and increased credit spreads in the market combined with significant increases in expected losses on loans within the underlying pools. Expected losses within the underlying pools are generally higher than original expectations, primarily in certain later-vintage adjustable rate mortgage loan pools, which has led to some rating downgrades in these securities.

ABS Subprime Mortgage Exposure

AEGON does not currently invest in or originate whole loan residential mortgages. AEGON categorizes asset backed securities issued by a securitization trust as having sub prime mortgage exposure when the average credit score of the underlying mortgage borrowers in a securitization trust is below 660. AEGON also categorizes asset backed securities issued by a securitization trust with second lien mortgages as sub prime mortgage exposure, even though a significant percentage of second lien mortgage borrowers may not necessarily have credit scores below 660. As of December 31, 2008, the amortized cost of investments backed by subprime mortgage loans was EUR 2,575 million and the market value was EUR 1,590 million.

The following table provides the market values of the sub prime mortgage exposure by rating.

	Market Value by Quality					
In million EUR	**AAA**	**AA**	**A**	**BBB**	**< BBB**	**Total 2008**
Sub-prime Mortgages - Fixed Rate	724	55	50	13	20	862
Sub-prime Mortgages - Floating Rate	195	153	19	30	54	451
Second Lien Mortgages [1]	65	108	20	55	29	277
At December 31	**984**	**316**	**89**	**98**	**103**	**1,590**
	61.9%	19.9%	5.6%	6.2%	6.4%	100.0%

1 Second lien collateral primarily composed of loans to prime and Alt-A borrowers

The following table provides the market values of the sub prime mortgage exposure by vintage:

	Market Value by Vintage						
In million EUR	**Pre-2004**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total 2008**
Sub-prime Mortgages - Fixed Rate	417	114	124	70	137		862
Sub-prime Mortgages - Floating Rate	48	6	145	131	102	19	451
Second Lien Mortgages [1]	76	24	36	57	84		277
At December 31	**541**	**144**	**305**	**258**	**323**	**19**	**1,590**
	34.0%	9.1%	19.2%	16.2%	20.3%	1.2%	100.0%

[1] Second lien collateral primarily composed of loans to prime and Alt-A borrowers

Additionally, AEGON has exposure to asset backed securities collateralized by manufactured housing loans. The market value of these securities is EUR 139 million with an amortized cost balance of EUR 165 million. All but one position have vintages of 2003 or prior. These amounts are not included in AEGON s sub prime mortgage exposure tables above.

Where credit events may be impacting the unrealized losses, cash flows are modeled using effective interest rates AEGON did not consider those securities to be impaired. Please refer to Note 18.3 of the notes to our consolidated financial statements in Item 18 of this Annual Report for details on the pricing process. There are no individual issuers rated below investment grade in the ABS-housing sector which have unrealized loss positions greater than EUR 25 million.

Non housing ABS Exposure

AEGON holds EUR 4,683 million of Non housing ABS securities. The unrealized loss on the Non housing ABS securities amounts to EUR 1,948 million. AEGON USA holds EUR 4,683 million (2007: EUR 6,051 million) of non housing related asset backed securities (ABS), unrealized losses on this portfolio amount to EUR 1,948 million at December 31, 2008 (2007: EUR 240 million). These are securitizations of underlying pools of credit cards receivables, auto financing loans, small business loans, bank loans and other receivables. The underlying assets have varying credit ratings and are pooled together and sold in tranches. See the table below for the breakdown of the non housing ABS exposure of AEGON USA.

In million EUR	AAA	AA	A	BBB	< BBB	2008 Cost price	2008 Market value
Credit Cards	1,314	142	368	956	85	2,865	1,907
Autos	354	195	241	99	29	918	704
SBA/Small Business Loans	463	9	8	34	1	515	343
CDOs backed by ABS, Corp Bonds, Bank Loans	624	196	11	36	14	881	591
Other ABS	712	219	386	95	40	1,452	1,138
At December 31	**3,467**	**761**	**1,014**	**1,220**	**169**	**6,631**	**4,683**

The fair values of AEGON USA s ABS- non housing instruments were determined as follows:

	Published price quotations in an active market	Valuation technique based on market observable inputs	Valuation techniques not based on observable market data	2008 Total
ABSs non housing		4,501	182	**4,683**

ABS Credit cards

The unrealized loss on ABS credit cards is EUR 958 million. The issuer identified as having the largest unrealized loss is Bank of America Credit Card Trust. This is a master trust made up of several deals with all of AEGON's holdings carrying investment grade ratings. AEGON owns EUR 697 million of securities under the Bank of America Credit Card Trust name with an unrealized loss of EUR 304 million. The unrealized loss in the ABS credit card sector, including the Bank of America Credit Card Trust, is primarily a function of decreased liquidity and increased credit spreads in the structured finance and financial institution market. While the credit card ABS portfolios with large subprime segments may be negatively impacted by the slowing domestic economy and housing market, there has been little rating migration of the bonds held by AEGON.

There is one individual issuer rated below investment grade in this sub-sector which has an unrealized loss position greater than EUR 25 million.

In EUR million	Market value	Unrealized loss	Rating
Washington Mutual Master TR	37	(47)	BB+

The unrealized loss on our Washington Mutual holding relates to performance metrics that have deteriorated to levels leading to rating agency downgrades. Bond pricing remains at distressed levels as the market tries to absorb the longer term impact of JP Morgan s acquisition of Washington Mutual. Cash flow models indicate full recovery of principal and interest for each of AEGON s particular holdings in an unrealized loss position. As there has been no impact to expected future cash flows, AEGON does not consider the underlying investments to be impaired as of December 31, 2008.

AEGON s credit card portfolio has been stress tested. Results of these stress tests indicate that while downgrades within the portfolio may occur, the tests are projecting payment in full. As there has been no impact to expected future cash flows, AEGON does not consider the underlying investments to be impaired as of December 31, 2008.

ABS - autos

The unrealized loss on ABS autos is EUR 214 million. The unrealized loss in the ABS auto sector is primarily a function of decreased liquidity and increased credit spreads with additional pressure coming from depressed auto sales and lower margins on incremental sales. While the auto ABS portfolio may be negatively impacted by the slowing domestic economy and concern over the future of the large automakers, there has been little rating migration of the bonds held by AEGON. Over 96% of the ABS auto bonds held by AEGON are rated investment grade. AEGON s entire structured auto portfolio has been stress tested. As there has been no impact to expected future cash flows, AEGON does not consider the underlying investments to be impaired as of December 31, 2008.

There are no individual issuers rated below investment grade in the ABS autos sector which have unrealized loss positions greater than EUR 25 million.

SBA Small business loans

The unrealized loss in the small business loan ABS portfolio is a function of decreased liquidity and increased spreads as new issuance within this sector has come to a halt. Additionally, delinquencies and losses in the collateral pools within AEGON s small business loan securitizations have increased since 2007, as a result of the overall economic slowdown which has resulted in decreased sales and profits at small businesses nationwide. Banks and finance companies have also scaled back their lending to small businesses.

AEGON s small business loan ABS portfolio is concentrated in senior note classes (99% of par value). Thus in addition to credit enhancement provided by the excess spread, reserve account, and over-collateralization, AEGON s positions are also supported by subordinated note classes. AEGON s small business loan ABS portfolio is also primarily secured by commercial real estate (99% of par value), with the original LTV of the underlying loans typically ranging between 60-70%.

There are no individual issuers rated below investment grade in the SBA small business sector which have unrealized loss positions greater than EUR 25 million.

ABS - CDOs

ABS-Collateralized Debt Obligations are primarily secured by pools of corporate bonds and leveraged bank loans. The unrealized loss is a function of decreased liquidity and increased credit spreads in the market for structured finance and monoline guaranteed securities. Where there have been rating downgrades to below investment grade, the individual bonds have been modeled using the current collateral pool and capital structure. As the unrealized losses in the ABS - CDO portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as of December 31, 2008.

There are no individual issuers rated below investment grade in the ABS CBO sector which have unrealized loss positions greater than EUR 25 million.

Other ABS

ABS-other includes debt issued by securitization trusts collateralized by various other assets including student loans, timeshare loans, franchise loans and other asset categories. The unrealized losses are a function of decreased liquidity and increased credit spreads in the market. Over 98% of the securities in an unrealized loss in this section are rated investment grade. Where ratings have declined to below investment grade, the individual bonds have been modeled to determine if cash flow models indicate a credit event will impact future cash flows and resulting impairments have been taken. As the unrealized losses in the ABS - Other portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as of December 31, 2008.

There are no individual issuers rated below investment grade in the ABS other sector which have unrealized loss positions greater than EUR 25 million.

Financial

The Financial sector is further subdivided into Banking, Brokerage, Insurance, REIT s and Financial other. The capital bases of banks and other financial firms have been strained as they are forced to retain assets on their balance sheets that had previously been securitized and to write down certain mortgage-related and corporate credit-related assets. Financial companies within AEGON s financial sector are generally high in credit quality, and as a whole represent a large portion of the corporate debt market.

For all these sub-sectors the fundamentals are weakening. However, the financial sector has seen a larger impact to valuations from the broader market volatility given it is a focal point of the current concerns. Governments across the world have attempted to stabilize market liquidity and investor confidence via extraordinary measures, including providing substantial support to banks and insurance companies.

Credit concentration risk section:

The value of our investments in deeply subordinated securities in the financial services sector may be significantly impacted if the issuers of such securities exercise the option to defer payment of optional coupons or dividends, are forced to accept government support or intervention, or grant majority equity stakes to their respective governments. See commentary on capital securities within the credit concentration risk section for more details. These securities are broadly referred to as capital securities which can be categorized as Trust Preferred, Hybrid, Tier 1 or Upper Tier 2.

The Trust Preferred category is comprised of capital securities issued by U.S.-based financial services entities where the capital securities typically have an original maturity of 30 years (callable after 10 years) and generally have common structural features, including a cumulative coupon in the event of deferral. The Hybrid category is comprised of capital securities issued by financial services entities which typically have an original maturity of more than 30 years and may be perpetual. In addition, Hybrids have other features that may not be consistent across issues such as a cumulative or non-cumulative coupon, capital replacement and an alternative payment mechanism, and could also be subordinate to the traditional Trust Preferred in the company s capital structure. Capital securities categorized as Tier 1 are issued by non-US banks and are perpetual with a non-cumulative deferrable coupon. Capital securities categorized as Upper Tier 2 are also issued by non-US banks but these positions are generally perpetual where the deferrable coupon is cumulative.

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The following table highlights AEGON s credit risk to capital securities within the banking sector:

Amortized Cost In million EUR	Americas	The Netherlands	United Kingdom	Other countries	2008 Cost price	2008 Market value
Hybrid	277		12		289	173
Trust preferred	553		46		599	378
Tier 1	930	317	661	89	1,997	1,044
Upper Tier 2	616	88	317	14	1,035	640
At December 31, 2008	**2,376**	**405**	**1,036**	**103**	**3,920**	**2,235**

Banking

The overall exposure to the banking sub-sector in AEGON s portfolio is large, diverse, and of high quality. The unrealized losses in the banking sub-sector primarily reflect the size of our holdings, credit spread widening and the market s concern over the adequacy of liquidity and capital in the banking sector given the deteriorating global economy. With some success, government initiatives were put into place during 2008 in an attempt to encourage lending, including the injection of capital into financial institutions through the US Treasury s Capital Purchase Program and the establishment of the FDIC Temporary Liquidity Guarantee Program whereby the FDIC guarantees newly issued unsecured debt for participating institutions. Other countries have adopted similar measures. However financial institutions remain vulnerable to ongoing asset write downs, credit losses and weak earning prospects that are associated with a recessionary environment and this is adding pressure to subordinated and longer duration holdings.

There are two individual issuers in this sub-sector which have an unrealized loss position greater than EUR 25 million. AEGON s exposure to Northern Rock PLC bonds in an amortized loss position has an amortized cost of EUR 109 million as of December 31, 2008. These Upper Tier 2 securities were rated BBB- and the end of 2008 and were subsequently downgraded to B- and have unrealized losses of EUR 80 million. Northern Rock PLC, a British mortgage bank, was nationalized in the first half of 2008 after suffering a run on the bank in 2007. The nationalization is viewed as temporary and after following a policy of shrinking its balance sheet to repay liquidity support from the UK authorities, the bank has more recently committed to boost lending. We expect the government to maintain their support of Northern Rock and payments continue to be made in accordance with the original bond agreements. AEGON evaluated the near-term prospects of the issuer in relation to the severity and duration of the unrealized loss and does not consider the position to be impaired as of December 31, 2008 with the exception of one security linked to a security subject to the nationalization order which has been impaired. AEGON s exposure to Bradford & Bingley bonds in an amortized loss position has an amortized cost of EUR 33 million as of December 31, 2008. The securities were rated CC and C and have unrealized losses of EUR 30 million. Bradford & Bingley have been nationalized, the deposit base and branch network has been sold and replaced by a loan from the Financial Services Compensation Scheme. The bank will be run down in an orderly fashion and our modeling indicates that it will be able to service its obligations. Bradford & Bingley are current on all obligations and has confirmed that they will pay coupons due on various Tier 1 and Upper Tier 2 issues during the first half of 2009. AEGON evaluated the near-term prospects of the issuer in relation to the severity and duration of the unrealized loss and does not consider the position to be impaired as of December 31, 2008.

AEGON evaluated the near-term prospects of the issuers in the banking sub sector in relation to the severity and duration of the unrealized loss and does not consider the remaining unrealized losses to be impaired as of December 31, 2008.

Brokerage, Insurance and Financial Other

These unrealized losses primarily reflect general spread widening on financial services companies (due to broad housing, mortgage market, equity market and economic issues plus increased liquidity and capital markets concerns), compounded in some cases by the structure of the securities (subordination or other structural features and duration). While the sub-sector has some exposure to the US residential mortgage market, the issuers are highly diversified. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2008.

There is one individual issuer rated below investment grade in this sub-sector which has an unrealized loss position greater than EUR 25 million.

AEGON s exposure to American International Group (AIG) has an amortized cost of EUR 458 million as of December 31, 2008, of which EUR 54 million relates to holdings rated below investment grade. The securities are rated B and have unrealized losses of EUR 32 million. AIG is the world s largest international insurance company. AIG suffered losses in excess of expectations on both their direct investment and derivative exposure to mortgage related securities. The losses led to rating downgrades, which in turn triggered incremental collateral postings. Early termination rights related to the downgrades, further anticipated mark-to-market related collateral postings required under its CDS contracts, and impairments within its general account portfolio increased strain on liquidity and the amount of incremental capital needed. In late September of 2008, AIG was able to secure a two-year bridge facility from the Federal Reserve, in exchange for warrants equal to 80% of their equity. In November, the Fed and U.S. Treasury extended to AIG a restructuring of the support program to allow AIG to reduce their collateral posting needs and provide them time to complete asset sales. Payments continue to be made in accordance with the original bond agreements. AEGON evaluated the near-term prospects of

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the issuer in relation to the severity and duration of the unrealized loss and does not consider the position to be impaired as of December 31, 2008.

There are no other individual issuers rated below investment grade in the brokerage, insurance and financial other sector which have unrealized loss positions greater than EUR 25 million.

REITs

The unrealized losses in the REIT sub-sector are a result of general spread widening in the CMBS market and the REIT unsecured market. Despite real estate values falling and capitalization rates rising, REIT s operating fundamentals continue to perform at levels sufficient to support their debt structure. However, further fundamental deterioration is expected as unemployment rises, consumer discretionary spending falls, and tenant bankruptcies increase. The majority of REITs have exhibited financial discipline and have focused on maintaining financial flexibility during the difficult financing environment. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2008.

There are no individual issuers rated below investment grade in the REITs sector which have unrealized loss positions greater than EUR 25 million.

Industrial

The Industrial sector is further subdivided into Basic Industries / Capital Goods, Consumer Cyclical, Consumer Non-Cyclical, Communications, Energy, Transportation, Technology, and Industrial other.

Basic Industries and Capital Goods

The Basic and Capital Goods industries encompass various sub-sectors ranging from aerospace defense to packaging. Building materials continue to be impacted by the slowdown in the US housing market which has been further impacted by declines in consumer spending. Chemicals have been impacted by concerns of a slowing economy, slower global demand, volatility in raw material costs and increasing competition from global competitors. Paper and forest products continue to be under pressure due to higher input costs, lower housing starts and lack of demand for paper related shipping and writing products. Additionally, lack of market liquidity and volatile credit markets have further impacted bond prices. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2008.

There are no individual issuers rated below investment grade in the basic industries and capital goods sub-sector which have unrealized loss positions greater than EUR 25 million.

Consumer Cyclical

The more significant of these