AEGON NV
Form 20-F
March 30, 2004
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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, 2003

OR

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

For the transition period from ______ to ______

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 202, 2501 CE The Hague, The Netherlands

(Address of principal executive offices)

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: 1,514,377,800 common shares

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 which financial statement item the registrant has elected to follow.

¨ Item 17 x Item 18

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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 Vereniging AEGON are to Vereniging AEGON. 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 NLG a guilders are to what was up to January 1, 2002 the lawful currency of the Netherlands, 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 Annual Report that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Words such as believe , estimate , intend , may , expect , anticipate , predict , project , counti continue , want , forecast , should , would , is confident and will and similar expressions as they relate to us are intended to identify such forward-looking statements. 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 speak only as of their dates. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations, including, but 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, including:
  - 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 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 affect the profitability of our insurance products;
- changes affecting interest rate levels and continuing low interest levels;
- changes affecting currency exchange rates, including the euro/US dollar and euro/UK pound 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 and acts of war;
- changes in the policies of central banks and/or foreign 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; and

competitive, legal, regulatory, or tax changes that affect the distribution cost of or demand for our products; and

our failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving initiatives.

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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.

ITEM 3. KEY INFORMATION

3.1 Selected financial data

In the table below, we provide you with our summary historical financial data. We have prepared this information using our consolidated financial statements for each of the five years ended December 31, 2003.

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the Netherlands (Dutch accounting principles), which differ in certain significant respects from generally accepted accounting principles in the United States (US GAAP). You can find a description of the significant differences between Dutch accounting principles and US GAAP and a reconciliation of shareholders equity and net income based on Dutch accounting principles to US GAAP in Note 18.5 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

When you read this summary historical financial data, it is important that you read it in conjunction with, and it is qualified by reference to, the historical financial statements and related notes in Item 18.

All per share amounts have been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends and stock splits through December 31, 2003.

	Years ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**

	(in million EUR, except per share amounts)				
Consolidated income statement information:					
Amounts based upon Dutch accounting principles[1]					
Premium income	19,468	21,356	21,578	20,771	14,980
Investment income	7,386	8,394	9,318	9,612	6,690
Fees and commissions[2]	1,221	978	615		
Total revenues[3,4]	28,429	31,144	31,895	30,707	22,374
Income before tax	2,147	1,849	3,243	2,839	2,181
Net income[4]	1,793	1,547	2,397	2,066	1,570
Net income per common share[5]					
Net income	1.15	1.04	1.70	1.51	1.23
Net income, fully diluted	1.15	1.04	1.69	1.49	1.21
Amounts based upon US GAAP[1,6]					
Premium income	10,141	10,191	10,214	7,509	5,784
Investment income	6,448	8,640	11,001	12,773	7,013
Total revenues[3,4]	20,123	19,247	21,599	20,654	13,501
Income from continuing operations before tax	2,286	(841)	1,158	3,492	1,950
Net income	1,531	(2,328)	632	2,716	1,601
Net income per common share[5]					
Basic	0.97	(1.62)	0.45	1.98	1.26
Diluted	0.97	(1.62)	0.44	1.96	1.24

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	Years ended December 31,				
	2003	2002	2001	2000	1999
	(in million EUR, except per share amounts)				
Consolidated balance sheet information:					
Amounts based upon Dutch accounting principles[1]					
Total assets	233,976	238,206	264,061	244,216	228,808
Technical provisions	193,960	197,642	220,523	206,097	190,145
Long-term liabilities (including current portion)	7,069	6,480	7,855	6,528	5,735
Shareholders equity[7]	14,132	14,231	15,923	12,844	13,543
Amounts based upon US GAAP[1, 2]					
Total assets	267,540	268,316	299,603	281,580	262,694
Technical provisions	212,395	217,022	240,297	225,602	206,007
Long-term liabilities (including current portion)	7,144	7,220	10,462	15,749	14,770
Trust pass-through securities (TRUPS) and monthly income preferred stock (MIPS)	408	491	584	553	512
Shareholders equity	17,836	17,554	20,831	18,965	17,050
Other					
Life insurance in force	1,150,215	1,244,741	1,248,452	1,163,443	972,560
Investment income for the account of policyholders[3]	12,858	(11,524)	(9,515)	(3,495)	13,533
Annuity deposits, including GIC/funding agreements[3]	18,568	28,419	26,381	25,506	17,445
Share capital	238	226	224	215	216

1 Our consolidated financial statements were prepared in accordance with Dutch accounting principles, which differ in certain respects from US GAAP. See Note 18.5 to our consolidated financial statements in Item 18 of this Annual Report for information concerning the differences between Dutch accounting principles and US GAAP.

2 As of 2003, Fees and Commissions are presented separately in the income statement. In prior years, these revenues were included in Investment income.

3 Excluded from the income statements prepared in accordance with Dutch accounting principles are receipts related to investment-type annuity products and investment income for the account of policyholders. In addition, universal life-type deposits are excluded from premium revenue in the income statements prepared in accordance with US GAAP.

4 Foreign currency items in the consolidated income statements have been converted at weighted average rates.

5 Per share data have been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends and stock splits through December 31, 2003. Diluted per share data give effect to all dilutive securities.

6 Reflects adjustments made to certain income statement amounts based on US GAAP in 2002 and 2000 and to certain balance sheet amounts based on US GAAP at December 31, 2001. The adjustments are described in more detail in Note 18.5 to our consolidated financial statements in Item 18 of this Annual Report.

7 The figures for 1999 and 2000 have not been adjusted for the change in accounting for paid dividends to shareholders.

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	2003	2002	(in thousands) 2001	2000	1999
Number of common shares:					
Balance at January 1	1,444,579	1,422,253	1,350,524	668,426	583,180
Stock split				668,426	
Issuance of shares			55,000		82,546
Stock dividends	69,799	22,326	16,484	13,194	2,319
Exercise of options			245	478	381
Balance at end of period	1,514,378	1,444,579	1,422,253	1,350,524	668,426

3.2 Dividends

AEGON has declared interim and final dividends for the years 1999 through 2003 in the amounts set forth in the table below. Dividends in US dollars are calculated based on the Midpoint Rate (the rate settled each working day at 14:15 hours by the Dutch Central Bank) on the business day following the shareholder meeting approving the relevant interim and final dividend.

	EUR per common share[1,4]			USD per common share[1,4]		
Year	**Interim**	**Final**	**Total**	**Interim**	**Final**	**Total**
1999	0.24	0.34	0.58	0.26	0.30	0.56
2000	0.29	0.42	0.71	0.26	0.37	0.63
2001	0.36	0.44	0.80	0.32	0.39	0.71
2002	0.36	0.35[2]	0.71[2]	0.35	0.32[2]	0.67[2]
2003	0.20	0.20[3]	0.40	0.22	N/A	N/A

1 Paid, at each shareholder s option, in cash or in stock, except 2002 final dividend.
2 The final dividend for 2002 was paid entirely in common shares at the rate of one new common share for every 25 common shares held on the record date.
3 Proposed.
4 Dividend per share is adjusted for the 2002 stock dividend.

On August 7, 2003, AEGON declared an interim dividend for 2003 of EUR 0.20 per common share. AEGON has proposed to its annual General Meeting of Shareholders, scheduled to occur on April 22, 2004, that the full year 2003 dividend be set at EUR 0.40 per common share, resulting in a final dividend for 2003 of EUR 0.20 per common share.

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 4.5% for 2003. Applying this rate to the weighted average paid-in capital of our preferred shares during 2003, the annual dividend on our preferred shares payable for 2003 will be EUR 95.3 million. The rate for annual dividends on preferred shares in 2004, as determined on January 2, 2004, is 3.75% and the annual dividend on preferred shares for 2004, based on the paid-in capital on the preferred shares on January 2, 2004, will be EUR 79.5 million.

3.3 Exchange Rates

On January 1, 1999, the Dutch guilder became a component of the euro. The exchange rate at which the guilder has been irrevocably fixed against the euro is EUR 1 = NLG 2.20371.

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 affect 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 on conversion of any cash dividends paid in euros on our common shares.

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As at March 25, 2004 the USD exchange rate[1] was EUR 1 = USD 1.2170

The high and low exchange rates[1] for the US dollar per euro for each of the last six months through February 2004 are set forth below:

	Sept. 2003	Oct. 2003	Nov. 2003	Dec. 2003	Jan. 2004	Feb. 2004
High (USD per EUR)	1.165	1.183	1.200	1.260	1.285	1.285
Low (USD per EUR)	1.085	1.160	1.142	1.196	1.239	1.243

The average exchange rates[1] for the US dollar per euro for the five years ended December 31, 2003, 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
1999	1.0588
2000	0.9207
2001	0.8909
2002	0.9495
2003	1.1411

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

3.4 Risk Factors

i. Risks relating to AEGON s Business

Interest Rate Risk

Interest rate volatility in the form of rapid increases or sustained high or 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 increase 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 that we sell invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. These cash payments to policyholders 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 policy acquisition costs, reducing net income.

During periods of sustained low 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 from year to year. During such a period, investment earnings may be lower because the interest earnings on new fixed income investments will likely have declined with the market interest rates. In addition, mortgages and redeemable bonds in the investment portfolio are more likely to be repaid as borrowers seek to borrow at lower interest rates and AEGON may be required to reinvest the proceeds in securities bearing lower interest rates. Also, in a period of low interest rates, AEGON may not be able to reduce crediting rates on policies and still preserve margins as a result of minimum guaranteed crediting rates provided on policies. Accordingly, during periods of sustained low interest rates, net income may decline as a result of a decrease in the spread between either the interest rates credited to policyholders or the rates assumed in reserves and returns on the investment portfolio. See Item 11, Quantitative and Qualitative Disclosure about Market Risk , of this Annual Report for a detailed sensitivity analysis discussion.

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The profitability of spread-based business depends in large part upon the ability to manage interest rate spreads, and the credit and other risks inherent in the investment portfolio. Investment income from general account fixed income investments for the years 2001, 2002 and 2003 was EUR 8.2 billion, EUR 7.3 billion and EUR 6.4 billion, respectively. The value of the related general account fixed income investment portfolio at the end of the years 2001, 2002 and 2003 was EUR 128 billion, EUR 124 billion and EUR 114 billion, respectively. We may not be able to successfully manage interest rate spreads or the potential negative impact of those risks.

Credit Risk

Defaults in our bonds, private placements and mortgage loan portfolios may adversely affect profitability

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For most products (typically general account products), AEGON bears the risk for investment performance return of principal and interest. AEGON is exposed to credit risk on its general account fixed income portfolio (bonds, mortgages and private placements), over-the-counter derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy or downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in AEGON s major markets resulted in significant investment impairments on AEGON s investment assets due to defaults and overall declines in the securities markets. Although credit default rates declined in 2003, a continuation of excessive defaults, or other reductions in the value of these securities and loans, could have a material adverse effect on AEGON s business, results of operations and financial condition.

Equity Market Risk

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

Fluctuations in the equity and securities markets have adversely affected and may continue to adversely affect our profitability, capital position and sales of equity related products. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investment where AEGON bears all or most of the volatility in returns and investment performance risk. Significant terrorist actions, as well as general economic conditions, have led to and may continue to result in significant decreases in the value of AEGON s equity investments. In 2001, 2002 and 2003, declines in equity securities held in our general account resulted in the recognition of impairment losses of EUR 36 million, EUR 1,057 million and EUR 273 million, respectively.

Additionally, equity market declines have required and may continue to require us to accelerate amortization of policy acquisition costs and to establish additional provisions for minimum guaranteed benefits, which reduces our net income and shareholders equity. These market conditions may also significantly reduce the popularity of our savings and investment products, which could lead to lower sales and net income. During 2002 and 2003, AEGON recognized accelerated amortization of deferred policy acquisition costs of EUR 450 million and EUR 129 million and increased provisions for products with guaranteed minimum benefit provisions by EUR 482 million and EUR 52 million, respectively.

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 we use in setting the prices for products and establishing the technical provisions and liabilities for claims. To the extent that our actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, our income would be reduced. Furthermore, if these higher claims were part of a trend, we may be required to increase our liabilities, which may 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 unrecoverability. This could have a material adverse effect on our business, results of operations and financial condition.

Currency Exchange Rate Risk

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

As an international group, we are subject to currency risk. Equity held in subsidiaries is kept in local currencies to the extent shareholders equity is required to satisfy regulatory and self-imposed capital requirements. Because of this, currency exchange fluctuations may affect the level of our shareholders equity as a result of translation into euro. We hold the remainder of our capital base (capital securities, subordinated and senior debt) in various currencies in amounts we believe correspond to the book value of our activities in those currencies. This balancing mitigates currency translation impacts to equity and leverage ratios. Currency risk in the investment portfolios is managed using asset liability matching principles. In 2000, we discontinued hedging the income streams from the main non-Dutch units and, as a result, our earnings may fluctuate due to currency translation. 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 US dollar and euro and between UK pound and euro. We may experience significant changes in our net income and shareholders equity because of these fluctuations.

For the Americas segment (which primarily conducts its business in US dollars), our total revenues and net income in 2003 amounted to EUR 14.8 billion and EUR 1,095 million, respectively. For the United Kingdom segment (which primarily conducts its business in UK pounds), our total revenues and net income in 2003 amounted to EUR 6.2 billion and EUR 135 million, respectively. On a consolidated basis, these two segments represented 74 % of the total revenues and 69 % of the net income for the year 2003. Additionally, we borrow in various currencies to hedge the currency exposure arising from our operations. We seek to align our borrowings to our capital in units. At December 31, 2003 we had borrowed amounts in proportion to the currency mix of our capital in units, which was denominated approximately 69 % in U.S. dollars, 15 % in UK pounds and 14 % in euro.

Liquidity Risk

Liquidity risk of certain investment assets

Liquidity risk is inherent in much of AEGON s business. Each asset purchased and liability sold has liquidity characteristics that are unique. Some liabilities are surrenderable while some assets have low liquidity such as privately placed loans, mortgages loans, real estate and limited partnership interests. If AEGON requires significant amounts of cash on short notice in excess of normal cash requirements, AEGON may have difficulty selling these investments at attractive prices, in a timely manner, or both.

Illiquid assets amounted to EUR 40.5 billion or 33% of general account investments at the end of 2003 (and EUR 45.5 billion, or 35% in 2002). Investment income from these assets amounted to EUR 3.5 billion, EUR 3.1 billion and EUR 2.5 billion, representing 38%, 37% and 34% of total general account investment income for the years 2001, 2002 and 2003, respectively. We realized impairment losses of EUR 162 million, EUR 217 million and EUR 220 million on these assets in the years 2001, 2002 and 2003, respectively.

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Other Risks

A downgrade in 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 could, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies, adversely affecting relationships with broker-dealers, banks, agents, wholesalers and other distributors of AEGON s products and services. This may result in cash payments by us requiring that we sell invested assets, including illiquid assets, at a price that may result in realized investment losses. These cash payments to policyholders 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 policy acquisition costs, reducing net income.

In addition, a downgrade may negatively impact new sales and adversely affect AEGON s ability to compete and thereby have a material adverse effect on AEGON s business, results of operations and financial condition. Negative changes in credit ratings may also increase AEGON s cost of funding.

On April 8, 2003, Standard and Poor s Ratings Services (S&P) lowered its counterparty credit rating on AEGON s senior debt from AA- to A+, with a stable outlook. S&P also changed the outlook on the insurance financial strength of one of our UK subsidiaries, Scottish Equitable plc to negative from stable on July 10, 2003. During 2003 Moody s maintained its rating on AEGON s senior unsecured debt at A2 with a negative outlook. The current S&P and Moody s insurance financial strength ratings and ratings outlook are below.

	S&P Rating	S&P Outlook	Moody s Rating	Moody s Outlook
AEGON USA	AA	Stable	Aa3	Stable
AEGON NL	AA	Stable	Not Rated	Not Rated
Scottish Equitable	AA	Negative	A1	Stable

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 our securities. Changes in existing insurance laws and regulations may affect the way in which we conduct our business and the products we may offer. For example, we expect our sales to be affected by the new amendments to the Federal Trade Commission Telemarketing Sales Rule as approximately 17% of AEGON USA new health insurance sales in 2002 were generated by telemarketing in the United States. The amendments to the rule, the majority of which went into effect on March 31, 2003, prevent telemarketers from targeting potential customers who have elected to be included in a national Do Not Call list. Moreover, some states also have state wide Do Not Call lists. In addition, changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may also 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.

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 our activities as an insurer, securities issuer, employer, investment advisor, investor and taxpayer. 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 material adverse effect on AEGON s business, results of operations and financial condition.

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We 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 and credit spread changes and changes in mortality and longevity. We use common financial derivative instruments such as interest rate swaps, options, futures and forward contracts to hedge some of our exposures related to both investments backing our insurance products and company borrowings. We may not be able to manage the risks associated with these activities successfully through the use of derivatives. In addition, a counter party may fail to honor the terms of its derivatives contracts with us. Our inability to manage our risks successfully through derivatives or a counterparty s failure to honor its obligations to us could have a material adverse effect on our business, results of operations and financial condition.

State statutes and/or foreign country regulators may limit the aggregate amount of dividends payable by our subsidiaries to us, thereby limiting our 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 our subsidiaries. Certain of these subsidiaries have regulatory restrictions, which can limit the payment of dividends.

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

AEGON s financial statements are prepared and presented in accordance with Dutch accounting principles. Any change in these accounting principles, such as the discontinuation of the indirect income method as of January 1, 2004 and the conversion to IFRS in 2005, may have a material impact on our reported results, financial conditions and shareholders equity. In particular, the elimination of the indirect income method in 2004 may increase the volatility of our reported results of operations.

Tax law changes may adversely affect the sale and ownership of insurance 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, if any, are payable on accumulated tax-deferred earnings when earnings are actually paid. The US Congress has, from time to time, considered possible legislation that would eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. In addition, the United States 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, which could have an impact on insurance products and sales in the United States. Recent changes in tax laws in the Netherlands have reduced the attractiveness of certain of our individual life products. The current administration in the Netherlands has indicated that it is contemplating further changes in law that would eliminate the tax advantages of certain of our products, including group savings products. Any changes in United States or Dutch tax law affecting our products could have a material adverse effect on our business and 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, employer and other group customers and agents and other distributors of insurance and investment products. The recent consolidation in the global financial service industry has also enhanced the competitive position of some of our competitors by broadening the range of their products and services, and 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 our products and services, particularly as competitors seek to win market share, and may harm our ability to maintain or increase our profitability.

AEGON overall in the U.S. life insurance market ranks fifth based upon total net life written premiums. AEGON ranks third in individual annuities, fourth in group annuities, seventh in ordinary life and first in synthetic Guaranteed Investment Contracts. Our major competitors in the United States include AIG, Hartford, ING, Metropolitan, John Hancock, Jefferson-Pilot, Nationwide and Prudential. In Canada, AEGON ranks second in the universal life market, third in the traditional life market and fourth in the segregated funding insurance market based upon new sales. Our primary competitors in Canada are AIG, Industrial Alliance, Clarica, Great West Life, Sun Life and Manulife. In the Netherlands, AEGON is the second largest life insurer based on gross life premium income with a 14% market share compared to a 21% market share for ING. Our other major competitors include ASR Fortis, Interpolis and Delta Lloyd. In the United Kingdom, AEGON has a top five position in the independent financial advisor channel for group and individual pensions. AEGON UK faces strong competition in all its markets from two key sources: life and pension companies and investment management houses. Our key competitors in the U.K. primary pension market are Standard Life, Aviva, Prudential UK, Friends Provident and AXA. Our main competitors in the U.K. retail investment market are typically the investment management houses (e.g., Fidelity, Merrill Lynch, Henderson etc). In Hungary, our major competitors include Allianz, Generali-Providencia, ING and OPT Garancia.

We may be unable to retain personnel who are key to our 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, and 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, which may offer compensation packages that include considerable equity-based incentives through stock option or similar programs.

Judgments of US courts may not be enforceable against us in Dutch courts

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. As a result, 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. It may, however, be possible for a U.S. investor to bring an original action in a Dutch court to enforce liabilities against us, or our affiliates, directors, officers or any expert named herein, who reside outside the United States, based upon the U.S. federal securities laws.

Reinsurers to whom we have 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, subject, in certain circumstances, to maximum limits based on 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

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table showing life insurance in force amounts on a direct, assumed and ceded basis for 2001, 2002 and 2003. See also Item 18, Financial Statements , Notes 18.1.14 and 18.1.15 of this annual report for the amount of reserve reduction taken at each balance sheet date for reinsurance ceded.

In accordance with industry practices, AEGON reinsures a portion of its 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 Manulife Reinsurance Limited, RGA Reinsurance Company, Clarica Life Insurance Company, Munich American Reassurance Company, European Re of Zurich, Security Life of Denver and Swiss Re. The major reinsurers of AEGON UK include GE Frankona, Merrill Lynch Pensions, Invesco Pensions, Baillie Gifford Life, Barclays Global Investors Pensions and Deutsche Asset Management Life and Pensions. The major reinsurers for non-life insurance for AEGON The Netherlands are Partners Re, Parijs, Swiss Re, Zurich, Amstelveen and GE, Frankona. The major reinsurers of ÁB-AEGON, in Hungary, are Swiss Re and Münich Re. AEGON Spain s major reinsurers are Munchener, Nacional, General Re and Ge Frankona.

We may have difficulty managing our expanding operations and we may not be successful in acquiring new businesses or divesting existing operations

In recent years we have effected a number of acquisitions and divestitures around the world and we may make further acquisitions and divestitures in the future. Growth by acquisition involves risks that could adversely affect our operating results and financial condition, including the 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 the incurrence of additional indebtedness, costs, contingent liabilities and amortization expenses related to goodwill and other intangible assets. Divestitures of existing operations could result in our assuming or retaining certain contingent liabilities. All of the foregoing could materially adversely affect our businesses, financial condition and results of operations. 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 we make. 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.

ii. Risks Relating to AEGON s Common Shares

Our share price could be volatile and could drop unexpectedly, and you may not be able to resell your common shares at or above the price you paid

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

investor perception of our company;

actual or anticipated variations in our revenues or operating results;

announcement by us of intended acquisitions, disposals or financings or speculation about such acquisitions, disposals or financings;

changes in our dividend policy, which could result from changes in our cash flow and capital position;

sales of blocks of our shares by significant shareholders, including Vereniging AEGON;

- a downgrade or rumored downgrade of our credit or financial strength ratings, including placement on credit watch;
- potential litigation involving us or the insurance industry generally;
- changes in financial estimates and recommendations by securities research analysts;
- fluctuations in foreign exchange rates and interest rates;
- the performance of other companies in the insurance sector;
- regulatory developments in the Netherlands, the United States, 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 our markets or industries in which we operate; and
- general market conditions.

The high and low sales prices of our common shares on Euronext Amsterdam were EUR 29.23 and EUR 9.04 respectively in 2002 and EUR 13.47 and EUR 5.87 respectively in 2003. The high and low sales prices of our common shares on the NYSE were USD 26.00 and USD 8.88 respectively in 2002 and USD 14.80 and USD 6.76 respectively in 2003. All share prices have been adjusted for the 2002 share dividend and are based on closing share prices.

We and our significant shareholders may offer additional common shares in the future, and these and other sales may adversely affect the market price of our outstanding common shares

It is possible that we 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). 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, 2003, 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 AEGON s outstanding common shares are freely tradable in the Netherlands, and all shareholders, including large shareholders such as Vereniging AEGON, are free to resell their shares in the Netherlands at any time.

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

Prior to September 2002, Vereniging AEGON, our major shareholder, beneficially owned approximately 52% of our voting shares and thus held voting control over us. In September 2002, Vereniging AEGON reduced its beneficial ownership to approximately 33% of our voting shares (excluding treasury shares). Pursuant to the 1983 Merger Agreement between AEGON and Vereniging AEGON, as amended, Vereniging AEGON may purchase as many class B preferred shares as would enable it to prevent or correct a dilution to below the actual percentage of our voting shares caused by a new issuance of shares by AEGON. The option granted to Vereniging AEGON permits it to purchase 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 will be issued at an exercise price equal to their par value (euro 0.25), unless otherwise agreed. On September 19, 2003, Vereniging AEGON exercised its option to purchase 10,220,000 preferred shares at par value to correct dilution caused by AEGON s 2002 final share dividend. On December 29, 2003, Vereniging AEGON exercised its option to purchase 880,000 preferred shares at par value to correct dilution caused by AEGON s 2003 interim share dividend.

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In addition, we have implemented certain changes to our corporate governance structure and our relationship with Vereniging AEGON pursuant to which Vereniging AEGON s voting power under normal circumstances, based on the current numbers of outstanding and voting shares, was reduced to approximately 23% of the votes exercisable in our General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances (such as the acquisition of 15% of our voting shares, a tender offer for our 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 will for a limited period of 6 months increase to a percentage, currently amounting to 32.6%. Consequently, Vereniging AEGON may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

- adopting amendments to our Articles of Incorporation;
- adopting our annual accounts;
- approving a consolidation or liquidation;
- approving a tender offer, merger, sale of all or substantially all of our assets or other business combination;
- in particular during the periods when Vereniging AEGON is entitled to exercise its increased voting rights, it will have sufficient voting power to veto certain decisions presented to the General Meeting of Shareholders, including any proposal relating to the following matters:
- rejecting Supervisory Board nominations for membership on the Supervisory Board and Executive Board;
- appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination; and
- 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 our common shares and the value of any cash distributions we make

Because our common shares listed on Euronext Amsterdam are quoted in euro and our common shares listed on the NYSE are quoted in US dollars, fluctuations in exchange rates between the euro and the US dollar may affect the value of your investment. In addition, we declare cash dividends in euro, 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 you receive.

Convertible securities (or other securities that permit or require us to satisfy our obligations by issuing common shares) that we have issued or may issue may influence the market price for our common shares

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

Item 4. Information on the Company

4.1 History and Development of the AEGON Group

i. General

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

AEGON 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, through its member companies, which we collectively refer to as the AEGON Group, is a leading international insurance group ranked by total assets at December 31, 2002 (source: The Wall Street Journal, September 22, 2003). AEGON is headquartered in the Netherlands and employs about 28,000 people worldwide. AEGON s common shares are listed in Amsterdam (Euronext), New York (NYSE), Frankfurt, London, Tokyo and Zurich (SWX).

AEGON s businesses focus primarily on life insurance, pensions, savings and investment products. The AEGON Group is also active in accident and health insurance and property and casualty insurance and has limited banking activities.

AEGON s three major markets are the United States, the Netherlands and the United Kingdom. In addition, the AEGON Group is present in a number of other countries including Canada, China, Hungary, Spain and Taiwan.

AEGON s businesses encourage product innovation and reward value creation through a decentralized organization and endorse a multi-brand and multi-channel distribution approach. New products and service initiatives are developed by our local management with a continuous focus on cost control, using tailored distribution channels to meet customers needs.

AEGON faces intense competition from a large number of other issuers, as well as non-insurance financial services companies such as banks, broker-dealers and asset managers, for individual customers, employer and other group customers and agents and other distributors of insurance and investment products.

The AEGON Group has the following reportable geographic segments: the Americas, the Netherlands, the United Kingdom and Other Countries, which include Hungary, Spain, Taiwan and a number of other countries with smaller operations (Germany, Belgium, China and Slovakia).

For information on our business segments, see Note 18.3, 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 202

2501 CE The Hague

The Netherlands

Telephone number: + 31 70 344 8305

Internet site: www.aegon.com

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ii. Strategy

Our strategy can be summarized as follows:

Commitment to core business

Insurance with a strong emphasis on life insurance, pensions, savings and investment products. AEGON focuses on the financial protection and asset accumulation needs of its clients.

Decentralized organization

Multi-domestic and multi-branded approach, giving a high degree of autonomy to the management of the individual country and business units, encouraging entrepreneurial spirit and action. AEGON requires local management to run local businesses.

Emphasis on profitability

Long-term average growth of net income target of 10% per annum; the minimum return on investment is set to earn adequate returns well in excess of the cost of capital on the pricing of new business and acquisitions. Divestments of non-core activities and underperformers and disciplined expense management are key to the achievement of these objectives.

Market position

AEGON s objective is to achieve a leading position in each of its chosen markets, in order to generate benefits of scale.

International expansion

AEGON supplements its autonomous growth with selective acquisitions and partnerships, which are preferred in countries where AEGON already has a presence in order to build scale and enhance distribution.

iii. Recent Developments and Capital Expenditures and Divestments

Restructuring of Relationship with Vereniging AEGON

On May 9, 2003, AEGON s shareholders approved certain changes to AEGON s corporate governance structure and AEGON s relationship with Vereniging AEGON in an extraordinary General Meeting of Shareholders. AEGON s Articles of Incorporation were subsequently amended on May 26, 2003. For more information see Item 7, Major Shareholders and Related Party Transactions .

Capital Expenditures, Acquisitions and Divestitures

On August 5, 2003, AEGON announced an agreement to sell most of the commercial lending businesses of Transamerica Finance Corporation (TFC) to GE Commercial Finance. The sale price of approximately USD 5.4 billion resulted in an after-tax book gain of around USD 200 million. On January 14, 2004 the transaction was closed and the book gain will be added directly to shareholders equity in 2004.

On October 2, 2003, AEGON completed the sale of TFC s real estate tax service and flood hazard certification businesses to First American Corporation for a total sale price of USD 400 million. As part of the transaction, TFC s real estate tax service subsidiary has distributed assets valued at USD 246 million to TFC. The sale of the two TFC subsidiaries, combined with the asset distribution transaction, resulted in an after-tax book gain of USD 347 million, which was added directly to shareholders equity against the invested capital charged earlier to equity as goodwill.

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The remaining businesses of TFC primarily consist of maritime container and European trailer leasing, which will be consolidated as of the first quarter 2004. Due to the reduced size of these activities, consolidation will no longer be incompatible with what is required by law.

On October 9, 2003, AEGON Nederland N.V. reached an agreement for the acquisition of a minority share in Unirobe Groep B.V. from AXA Nederland N.V. The transaction was closed on January 2, 2004.

In the course of 2003 and 2002, AEGON announced the acquisition in whole or in part of several independent advisory companies in the United Kingdom. The purchases were realized through AEGON UK plc and form part of the strategic goal to invest in distribution capability in the UK market.

On September 5, 2002, AEGON and La Mondiale, a French mutual life insurance company that specializes in life insurance and pensions, announced that they had entered into an alliance for the development of new pension ventures in Europe. To effectuate this alliance, AEGON on December 26, 2002 acquired a 20% participation in La Mondiale Participations, the holding company under which the non-mutual activities of La Mondiale have been grouped.

On May 9, 2002, AEGON and the China National Offshore Oil Corporation (CNOOC) announced the establishment of a joint venture for life insurance activities in China. CNOOC and AEGON entered into this joint venture as equal partners and will each contribute 50% to the joint venture s initial capital base of approximately EUR 27 million. The joint venture, with headquarters in Shanghai, commenced operations in the course of 2003 and is currently planning expansion to other cities in China, subject to relevant regulatory approvals.

4.2 Business Overview

i. Product-line Overview

General Account Products

With general account life insurance products, AEGON typically carries the investment risk, earns a spread (the difference between investment performance and crediting rates to the customers), realizes mortality results or targets a combination thereof.

Traditional Life Products. Traditional life products contributed 48 % of AEGON s income before tax excluding interest charges and other in 2003 (67% in 2002 and 43% in 2001). Traditional life consists of permanent and term life insurance. These products are marketed to individuals, pension funds, companies and banks, through (independent) agents, brokers, direct response, worksite marketing and financial institutions in the United States, the Netherlands, the United Kingdom, Canada, Hungary, Spain and Taiwan.

Permanent life insurance provides life-long financial protection. Most permanent policies have a cash value feature with a minimum rate guarantee that accumulates tax-deferred over the life of the policy and can be used to help fund financial goals, particularly in retirement. A customer can either withdraw the cash value subject to any withdrawal charges or receive the benefit upon a pre-determined event, such as the death of the insured. Whole life insurance is a common form of permanent life insurance where premiums generally remain constant over the life of the policy. Universal life insurance is another form of permanent life insurance that has either a flexible or single premium. The contract has an adjustable benefit feature that allows the customer greater flexibility on when to pay premiums and the amount of the premium, subject to a minimum and a maximum. For universal life products, the more the customer pays in premium, the greater the cash value will be. The interest rate at which the cash value accumulates is adjusted periodically. Universal life insurance has a stated minimum interest rate that will be paid on the policy s cash value. An indexed version of universal life is also offered where

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the credited rate is tied to the change, either positive or negative, in a designated stock market index. There is no minimum interest for indexed universal life. Universal life products are sold to individuals, pension funds, companies and banks.

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. Term 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.

Traditional life products also include life insurance sold as part of defined benefit pension plans, endowment policies and post-retirement annuity products. Bank- or company-owned life insurance (BOLI/COLI) funds the costs of employee benefits, usually with key employees of the company as the insured persons.

Transamerica Reinsurance provides traditional risk and capital management, facultative and contract underwriting services, product development services and term insurance wholesaling. It provides coinsurance and modified coinsurance of fixed and variable annuities. In the U.S., client focus is on large, primary insurance carriers and other significant businesses in the financial services arena. Transamerica Reinsurance writes reinsurance directly with its ceding company clients rather than through brokers.

Fixed Annuities. Fixed annuities contributed 13% of AEGON s income before tax excluding interest charges and other in 2003 (8% in 2002 and 10% in 2001). Fixed annuities are marketed to individuals and pension funds through financial institutions, (independent) agents and brokers in the United States and Canada and through direct response in the United States.

A fixed annuity is an annuity contract guaranteeing the customer a fixed minimum payout. The fixed annuity products AEGON USA offers include deferred or immediate annuities, which may be purchased on either a flexible or single premium basis. An immediate annuity is usually purchased with a single lump sum premium payment and the benefit payments begin within a year after the purchase. Deferred annuities are offered on a fixed or indexed basis and the benefit payments will begin at a future date. Upon maturity of the annuity, the customer can select payout options, including a lump sum payment or income for life or for a period of time. Should the customer die prior to receiving the benefits of the policy, the beneficiary receives the accumulated cash value death benefit. The customer can surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed annuities have a specified rate of interest that can be reset periodically by AEGON.

A multi-strategy annuity allows a customer a choice of investment strategies to allocate funds and provides an accumulative lifetime minimum guaranteed interest rate. Early withdrawal by the customer of the cash value of the annuity is subject to surrender charges.

AEGON s operations in the United States sell group and individual fixed annuities and 401(k) contracts to small and medium-sized 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 to be provided by AEGON after the annuities are sold.

Guaranteed Investment Contracts and Funding Agreements. Guaranteed Investment Contracts (GICs) and Funding Agreements (FAs) contributed 8% of AEGON s income before tax excluding interest charges and other in 2003 (13% in 2002 and 6% in 2001). GICs and FAs are marketed only to institutional investors such as pension funds, retirement plans, college savings programs, money market funds, municipalities and U.S. and overseas investors. GICs are primarily sold to tax qualified plans while FAs are typically sold to non-tax qualified institutional investors. The products are marketed directly and through brokers (and independent agents) in the United States and internationally from the United States.

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GICs and FAs are spread-based products that are generally issued on a fixed or floating rate basis and provide the customer a return of principal and a guaranteed rate of interest. For some of the products, the customer receives a return based on a change in a published index, such as the S&P 500. The term of the contract can be fixed (primarily from 6 months up to 10 years) or it can have an indefinite maturity. Contracts with an indefinite maturity provide the customer with a put option whereby the contract will be terminated with advance notice ranging from 3 to 13 months.

Products for the Account of Policyholders

Products for the account of policyholders are those where the policyholders carry the investment risk. AEGON earns management, administration and guaranteed minimum benefit fees and mortality results on these products.

Life Products for the Account of Policyholders. Life products for the account of policyholders contributed 15% of AEGON s income before tax excluding interest charges and other in 2003 (17% in 2002 and 17% in 2001). These products are sold to individuals through (independent) agents, marketing organizations, financial institutions, worksite marketing, franchise organizations and brokers in the United States, the Netherlands, the United Kingdom, Canada, Hungary, Spain and Taiwan.

Life products for the account of policyholders include several forms of life insurance and pension products whereby death benefits and cash values vary with the performance of a portfolio of investments. Premiums can be allocated among a variety of investments that offer different degrees of risk and reward, including stocks, bonds, combinations of both, or investment products that guarantee interest and principal. The customer retains the investment risk and AEGON earns a return from investment management fees, mortatility based cost of insurance charges and expense charges. The contract account balance varies with the performance of the investments chosen by the policyholder. These products also include variable universal life (United States), tontine plans (the Netherlands) and unit-linked life insurance (UK and Other countries).

Variable universal life products are similar to universal life products, but include investment options and maintenance of investments for the account of policyholders.

Tontine plans (the Netherlands) are linked pure endowment savings contracts, with a tontine bonus structure. Policyholders can choose from several funds in which to invest premiums paid. When death occurs before maturity, the tontine plans pay a death benefit equal to the premiums accumulated at 4% compound interest, subject to a minimum of 110% of the fund value during the first half of the contract term. This death benefit is charged on a yearly risk premium basis. The amount of death benefit that is charged for is equal to the total benefit paid to the policyholder plus any unrecouped acquisition costs. When death occurs, the balance in the investment account 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 (a new series starts at the beginning of each calendar year) to which the deceased policyholder belonged. On survival to the maturity date, a benefit equal to the fund value, inclusive of tontine bonuses, is paid out. This is subject to a minimum of the premiums paid, providing the Mix-fund was chosen for investing premiums.

Unit-linked products are contracts whereby the policyholder is able to choose initially, and change subsequently, the proportion of the premium that is invested in certain funds. The benefits on death or maturity are equal to the value of the units, in certain cases subject to a minimum of the guaranteed benefits. Unit-linked products generally have variable maturities and variable premiums.

Variable Annuities. Variable annuities contributed 2% to AEGON s income before tax excluding interest charges and other in 2003 (minus 21% in 2002 and 3% in 2001). Variable annuities are sold to individuals and pension funds through (independent) agents, marketing organizations, brokers and financial institutions in the United States and Canada.

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Variable annuities allow a customer to save for the future on a tax-deferred basis and to select payout options that meet the customer 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 funds offered by AEGON, including bond and equity funds, and selected by a client based on the client s preferred level of risk. The assets and liabilities related to this product are legally segregated for the benefit of particular policyholders in separate accounts of the insurance company (classified as investments for the account of policyholders).

The account value of the variable annuities reflects the performance of the funds. AEGON earns mortality charges for providing a minimum guaranteed death benefit and may also provide guaranteed income benefits upon annuitization. This category includes segregated funds (Canada).

Fee Business. Fee business contributed 0.2% to AEGON s income before tax excluding interest charges and other in 2003 (0.1% in 2002 and 3% in 2001). The products are sold to individuals, pension funds, asset managers through (independent) agents, marketing organizations and financial institutions and direct marketing in the United States, Canada, the Netherlands, the United Kingdom and Hungary.

Our 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). Our 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. AEGON serves the following retirement plan markets:

- corporate defined benefit plans;
- corporate defined contribution plans (401(k) plans);
- not-for-profit organizations qualifying for tax qualified annuities under section 403(b) of the US Internal Revenue Code; and
- non-qualified 457 plans available to government and tax-exempt organizations.

Bundled retirement plans are sold to mid-sized and large employers. A manager of managers investment approach is used specifically for the retirement plans market, which allows clients access to institutional investment managers across the major asset classes. These funds are available in a core-and-feeder structure, in which the core is similar to a mutual fund and the feeder provides an institutional customer with a choice of products that are directly linked to the performance of the mutual fund, such as a registered or non-registered variable annuity, a collective investment trust (off-balance sheet) or mutual funds (off-balance sheet).

The U.S. operations provide the fund manager oversight for the IDEX and Diversified Investors Funds Group family of mutual funds. AEGON builds alliances with investment companies and selects and retains external managers based upon performance from a variety of investment firms. The external manager remains with the investment company and acts as a sub-advisor for AEGON s mutual funds. AEGON earns investment management fees on these investment products.

A synthetic GIC is generally characterized as an off-balance sheet fee-based product sold primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans, as well as college savings plans. AEGON insurance companies provide 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. The synthetic GIC provides a smoothed return to plan participants and book-value benefit-responsiveness in the event that qualified plan benefit requests exceed plan cash flows. In certain contracts, AEGON agrees to make advances to meet benefit payment needs and earns a market interest rate on these advances. The periodically adjusted contract-crediting rate is the means by which investment and benefit responsive experience is passed through to participants.

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In Canada, fees are earned through several special service and fund management companies. Fees are earned by providing administrative back office services that facilitate the sale of mutual funds and segregated fund products. In addition, a national network of financial planning franchises and representatives earn fees when products of non-affiliated companies are sold. Investment management fees are also earned by providing portfolio management and investment advisory services.

AEGON s operations in the Netherlands offer financial advice and are 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.

AEGON UK has expanded its interest in a number of independent advisors in the United Kingdom. The independent advisors deliver advice relating to financial needs to a range of customers (both individuals and companies).

ÁB-AEGON in Hungary provides asset management services through its subsidiary, AEGON Securities.

Accident and Health Insurance. Accident and health insurance contributed 11% to AEGON s income before tax excluding interest charges and other in 2003 (13% in 2002 and 6% in 2001). Accident and health products are sold to individuals and companies through (independent) agents, brokers and direct marketing in the United States, the Netherlands, Spain and Hungary.

AEGON offers limited forms of health insurance, including disability insurance in the Netherlands, Spain and Hungary and accidental death and dismemberment insurance in the United States, but does not offer major medical coverage.

AEGON USA also offers cancer treatment, heart disease and intensive care policies in the USA, that are sold to individuals on a voluntary basis at their place of employment with premium payment made through payroll deduction. These plans provide specified income payments during hospitalization, scheduled benefits for specific hospital/surgical expenses and cancer treatments, hospice care, and cover deductible and co-payment amounts not covered by other health insurance and Medicare supplement products.

Long-term care products offered by AEGON USA provide benefits to customers who, because of their advanced age or a serious illness, require continuous care. Long-term care policies offered include nursing home coverage, home health care, assisted living and adult day-care services and protect the insured s income and retirement savings from the costs of long-term nursing home or home health care.

In Canada, AEGON offers accidental death and out-of-the-country medical expense coverages.

General Insurance. General insurance contributed 2% to AEGON s income before tax excluding interest charges and other in 2003 (2.6% in 2002 and 2% in 2001). General insurance is sold to individuals and companies through (independent) agents and brokers in the Netherlands, Hungary and Spain.

AEGON offers limited forms of general insurance in selected markets, such as automobile insurance, liability insurance, household insurance and fire protection.

Banking Products. Banking products contributed 0.8% to AEGON s income before tax excluding interest charges and other in 2003 (0.3% in 2002 and 1% in 2001) and are only sold by AEGON The Netherlands. Distribution channels are direct marketing, (independent) agents, retailers and franchise organizations.

AEGON s banking products include savings accounts and investment contracts (i.e. security lease products). Both products generate investment-spread income for AEGON. Savings accounts offer attractive interest rates while retaining flexibility to withdraw cash with limited restrictions. AEGON discontinued selling security lease products in early 2003. Banking products also include investment products that offer index-linked returns and generate fee income on the performance of the investments.

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ii Supervision

Individual companies in the AEGON Group are each subject to solvency supervision in their respective home countries. Based on European Commission legislation (Directive 98/79/EC) adopted in 1998, the supervisory authorities in the Netherlands (Pensioen- en Verzekeringskamer, or PVK) are, as lead supervisors, also required 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 the PVK 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 the PVK twice a year setting out all the significant transactions and positions between the insurance and non-insurance companies in the AEGON Group.

Both the insurance and banking companies in the AEGON Group are also 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 requirements of European directives. Available liability capital includes shareholders equity, capital securities and subordinated loans.

4.3 The Americas

i. General History

AEGON s operations in the Americas comprise AEGON USA and AEGON Canada and are referred to collectively as AEGON Americas.

AEGON USA was formed in 1989 when AEGON decided to consolidate the U.S. holding companies under one financial services holding company. Business operations are conducted through life insurance subsidiaries of AEGON USA Inc., Commonwealth General and Transamerica Corporation. Products are offered through several primary life insurance subsidiaries, with licenses in every state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

Total employment of AEGON USA as at December 31, 2003 was 13,630, including 2,928 agents.

AEGON USA s principal offices are located in Los Angeles, California, Cedar Rapids, Iowa, Charlotte, North Carolina, Frazer, Pennsylvania, Louisville, Kentucky, Kansas City, Missouri, Purchase, New York, St Petersburg, Florida, Plano, Texas, and Baltimore, Maryland. AEGON Canada s principal office is located in Toronto, Canada.

The primary insurance subsidiaries in the United States, all of which are wholly-owned, are:

Transamerica Financial Life Insurance Company, Inc., Purchase (New York USA);

Life Investors Insurance Company of America, Cedar Rapids (Iowa USA);

Monumental Life Insurance Company, Baltimore (Maryland USA);

Peoples Benefit Life Insurance Company, Cedar Rapids (Iowa USA);

Stonebridge Casualty Insurance Company, Columbus (Ohio USA);

Stonebridge Life Insurance Company, Rutland (Vermont USA) (formerly J.C.Penney Life Insurance Company);

Transamerica Life Insurance & Annuity Company, Charlotte (North Carolina USA);

Transamerica Life Insurance Company, Cedar Rapids (Iowa USA);

Transamerica Occidental Life Insurance Company, Cedar Rapids (Iowa USA);

Western Reserve Life Assurance Co. of Ohio, Columbus (Ohio USA);

Veterans Life Insurance Company, Springfield (Illinois USA); and

First AUSA Life Insurance Company, Baltimore (Maryland USA).

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Our operations in the United States (carried out by our collective group of U.S. operating companies) primarily sell life insurance products, including traditional life insurance, universal life insurance, variable universal life insurance, guaranteed investment contracts, funding agreements, fixed annuities and variable annuities. AEGON s U.S. operations also sell accident and health insurance, but made the strategic decision to move away from primary health coverage a number of years ago, and to concentrate health operations in the supplemental coverage sector. The majority of earnings contributions from AEGON s U.S. operations are derived from traditional life products.

Operationally, our subsidiary companies in the United States contain five operating groups acting through one or more of the AEGON USA life insurance companies: Agency, Direct Marketing Services, Financial Markets, Institutional Products and Services, and Pension. The group structure enables AEGON USA to manage across the organization more easily and to identify business synergies, pursue cross-selling opportunities and improve operating efficiencies. Coordinated support services provide expertise in systems technology, investment management, regulatory compliance and various corporate functions to complement operations. Products are offered and distributed through one or more of the AEGON USA licensed insurance or brokerage subsidiary companies. The divisions referenced below are part of those subsidiary companies.

ii. Products and Distribution

Agency Group

The Agency Group divisions offer a wide range of insurance products through career and independent agents, registered representatives, financial advisors and specialized marketing organizations, and target distinct market segments ranging from home service to the advanced market that serves clients with higher net worth by providing various tax and estate planning products. The Agency Group consists of the following:

- AEGON Financial Partners;
- Life Investors Career Agents/Independent Producers Group;
- Intersecurities, Inc.;
- Transamerica Insurance & Investment Group;
- World Financial Group;
- Monumental Division;
- Long Term Care Division; and
- Worksite Marketing.

AEGON Financial Partners (AFP) was formed in early 2002 as a new internal service organization to enable the Agency Group to take better advantage of its combined size and strength by integrating the operations, technology and service functions of separate but similar operating groups. AFP provides services to Life Investors Career Agents/Independent Producers Group, Intersecurities, Transamerica Insurance & Investment Group and World Financial Group.

Life Investors Career Agents/Independent Producers Group targets middle to upper-income markets, selling primarily interest-sensitive and ordinary life insurance. Through its agency-building system, Life Investors has carried out its mission by providing its more than 2,000 agents with quality products, technology tools, and a high level of home office training and support. During the past few years, the Independent Producers Group has seen tremendous growth in both recruiting and sales**.** This unit, which is focused on developing relationships with independent marketing organizations and managing general agents throughout the United States, has grown to nearly 13,000 independent agents.

Intersecurities, Inc. (ISI) is a fully licensed, independent broker-dealer and registered investment advisor. ISI s 2,500 registered representatives are focused on helping clients meet their investment objectives through an array of financial products, including mutual funds, fixed and variable life insurance, annuities, and securities. ISI is positioning itself for growth by building an internal wholesaling unit for life products within already existing channels and leveraging the wholesaling expertise of its affiliate, Transamerica Capital, Inc., for variable products.

Transamerica Insurance & Investment Group (TIIG) distributes term, fixed and variable life insurance and equity products to its targeted niche market of older, affluent individual customers and small to mid-sized businesses. TIIG s primary distribution channels are 469 general agencies and 100,000 agents. Sales of TIIG s variable products are supported by a network of broker-dealers, including the broker-dealer channel, which includes Transamerica Financial Advisors, Inc., an affiliated broker-dealer with 950 representatives. TIIG currently has a National Accounts initiative underway for its fixed and variable products, focusing on establishing and maintaining business relationships with key national accounts and driving marketing programs aimed at increasing production from sales representatives. TIIG Distributors has been formed to penetrate this market and is made up of general agencies, with wholesalers dedicated to serving this channel with TIIG programs and products.

World Financial Group (WFG) targets the middle-income market, selling variable universal life insurance, variable annuities and mutual funds. WFG affords its more than 50,000 associates (8,500 of whom are securities brokers registered with World Group Securities, Inc., a registered broker-dealer) the opportunity to build financial services and insurance businesses on their own terms.

Monumental Division targets the underserved lower and middle-income markets, selling individual traditional life and supplemental health insurance through three distinct distribution systems: Career Agency, PreNeed and Military. Approximately 2,700 agents in 22 states reflect the diversity found in the communities they serve. The career agents provide face-to-face service to the policyholders. The Pre-Need unit sells life insurance products through funeral directors and their agents to pre-fund funerals. In the Military unit, former military officers market life insurance and retirement savings products to commissioned and non-commissioned officers based in the United States and abroad.

The Long Term Care Division provides insurance products designed to meet the long-term health care needs of consumers during retirement. Long-term care insurance products provide coverage primarily for care services provided at home, in an assisted living facility or in a nursing home. This division has been active in the market since the late 1980 s and with the integration of the Transamerica Long Term Care operations, it is now among the top six U.S. providers of long-term care insurance products (Life Plan 2002 annual survey of Long Term Care Insurers). Products are sold directly through independent brokerage agents, captive/career agents and general agents.

Transamerica Worksite Marketing offers a wide range of voluntary, payroll deduction life and supplemental health insurance products for groups ranging in size from as few as five employees to more than 150,000 employees. Products marketed to employees at their workplace are designed to supplement benefit plans that they may already have, both through their employers and on their own.

Direct Marketing Services Group

AEGON Direct Marketing Services (ADMS) is focused on customers that might not be reached by AEGON USA s other distribution channels, or might prefer to buy insurance products directly and not through an agent or intermediary. ADMS has developed a highly targeted approach using sophisticated database technology to increase its ability to develop niche markets and design products positioned to meet specific customers needs.

Customers can purchase an extensive portfolio of products through direct mail, point-of-service, the Internet and telemarketing. Products are also marketed using the endorsement of sponsoring organizations such as financial institutions, auto dealers and various membership associations.

Additionally, ADMS has applied its direct marketing expertise to markets abroad and has offices in England, Australia, Spain, Republic of Korea, Japan, Germany, Italy and Taiwan. ADMS has developed strategic relationships with major business partners in these areas and uses their endorsement to market AEGON USA s products via telemarketing and direct mail.

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Financial Markets Group

AEGON USA s Financial Markets Group (FMG) consists primarily of Transamerica Capital Inc., Transamerica Investment Management, LLC and Extraordinary Markets.

Transamerica Capital Inc. (TCI) works in partnership with many of the largest banks in the United States to market fixed and variable annuities and life insurance through the banking channel. Recent product focus has been on the 50 years and older segment and proprietary bank annuities, whereby AEGON USA develops an annuity specifically branded for the individual financial institution and the financial institution earns fee income from the marketing and investment management functions. In addition, TCI serves as the wholesale marketing and sales arm to leading New York brokerage firms, regional and independent broker-dealers and independent financial planners to help them market, promote and sell mutual fund and variable annuity products to their clients. Transamerica Investment Management is a registered investment advisor and provides investment management services to mutual funds, institutional accounts, pension funds, variable annuity and variable life insurance separate accounts.

Extraordinary Markets offers fixed and variable life insurance products to the bank and corporate-owned life insurance market through top-level independent brokers. Extraordinary Markets specialized team of product development, financial, actuarial and investment professionals has helped some of the world s leading financial institutions and corporations fund employee and executive benefit and compensation programs through innovative insurance and investment solutions. The market is approached opportunistically and thus sales results can vary dramatically from year to year.

The bank distribution channel is important to AEGON USA. In 2003, life sales through banks more than doubled. Working closely with our partners, AEGON seeks to customize products and support to help banks expand their relationship with their customers

Institutional Products and Services Group

The Institutional Products and Services Group includes AEGON Institutional Markets and Transamerica Reinsurance Group.

AEGON Institutional Markets Division (IMD) is well positioned and long established in the competitive and mature institutional market. IMD entered the market with a distinctive floating-rate GIC in 1982. Since then, it has significantly expanded its platform to include traditional fixed-rate GICs, funding agreements and fee-based businesses such as synthetic GICs, in which AEGON Institutional Markets holds the leading market position (source: reports of LIMRA International). IMD has been able to enhance its leadership position through product customization, strong service capabilities and profitable underwriting. IMD s skills in product development, distribution and investment and risk management have resulted in a diversified customer and market base and multi-channel distribution. IMD also administers AEGON s block of structured settlement pay-out annuities business. New sales for this product were discontinued in 2003.

Transamerica Reinsurance provides traditional risk and capital management, facultative and contract underwriting services, product development services and term insurance wholesaling. It provides coinsurance and modified coinsurance of fixed and variable annuities. In the U.S., customer focus is on large, primary insurance carriers and other significant businesses in the financial services arena. Transamerica Reinsurance writes reinsurance directly with its ceding company clients rather than through brokers. This direct relationship produces an expense advantage and a more complete understanding of risks while contributing to more favorable underwriting results and deeper, longer-lasting customer relationships. In today s highly competitive reinsurance environment, Transamerica Reinsurance distinguishes itself through its knowledge and experience in assessing and pricing mortality risk, underwriting and private label term services. Transamerica Reinsurance continues to advance international efforts, with a focus on select markets in Latin America and the Asia Pacific region. Foreign offices have been established in Taipei (Taiwan), Seoul (Korea), Hong Kong, Tokyo (Japan), Mexico City (Mexico) and Santiago (Chile). Transamerica Reinsurance writes business through various AEGON USA companies as well as offshore affiliates, Transamerica International Re (Bermuda) Ltd. and Transamerica International Reinsurance Ireland Limited.

Pension Group

The Pension Group includes Diversified Investment Advisors and Transamerica Retirement Services.

Diversified Investment Advisors (Diversified) is a registered investment advisory firm dedicated exclusively to retirement plan management. Diversified s provides a customized approach to retirement plans, which includes comprehensive investment, administrative and technical services for 401(k), section 403(b) of the Employee Retirement Income Security Act of 1973, as amended (ERISA), defined benefit, profit sharing, money purchase, NQDC, and 457(b) plan types. Diversified provides retirement products and services for the mid- to large-sized pension market, which includes companies with between 250 and 10,000 employees and pension assets between USD 5 million and USD 250 million. These products and services are sold through a variety of intermediaries, including benefit consulting firms, broker/dealers, agents and brokers.

Transamerica Retirement Services (TRS) offers customized retirement plan services in the small business retirement plan market and the multiple employer plan market. A full line of 401(k), profit sharing, age-weighted and age-neutral plans are serviced. TRS distributes its products through intermediaries, including life agents, brokers, registered representatives, financial planners and certified public accountants as well as through a series of strategic alliance relationships. TRS seeks to distinguish itself from its competitors by focusing on innovative plan design and ERISA expertise and offering a broad range of investment choices.

iii. Asset Liability Management

AEGON s U.S. subsidiaries are 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 subsidiaries. Such laws generally permit investments in qualified state, municipal and federal government obligations, corporate debt, preferred and common stock, real estate and real estate mortgages for less than the value of the mortgaged property.

The key investment strategy for traditional insurance-linked portfolios is asset liability management, whereby high-quality investment assets are matched in an optimal way to the corresponding insurance liability, taking 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 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 perform well in a falling interest rate environment. On the asset side, hedging instruments are continuously studied to determine if their cost is commensurate to the risk reduction they offer.

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iv. Reinsurance ceded

In accordance with industry practices, AEGON USA reinsures portions of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Such reinsurance arrangements are in accordance with standard reinsurance practices within the industry. AEGON USA enters into these arrangements to assist in diversifying its risks and to limit the maximum loss on risks that exceed policy retention limits. The maximum retention limit on any one life is generally USD 500,000 with certain companies retaining up to USD 2,000,000. AEGON USA remains contingently liable with respect to the amounts ceded if the reinsurer fails to meet the obligations it assumed. AEGON USA annually monitors the creditworthiness of its primary reinsurers, and has experienced no material reinsurance recoverability problems in recent years.

v. 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.

AEGON USA increased prices on traditional life products sold to older and more efficient markets as a result of the low interest rate environment. If competitors fail to raise prices in a similar way or fail to maintain price increases, then our sales may be hurt.

In the middle income and young family markets, AEGON USA has seen significant growth in demand for traditional life products. AEGON USA has increased the number of agents in this market, which has led to growth. The main competitors in this market are CNA, Fidelity and Guaranty and Great American.

AEGON USA markets variable universal life, mutual funds and variable annuities to middle income clients with equity investment objectives. Sales in this market have been hurt by the decline in the equity markets. The main competitors in this market are Pacific Life, Kemper and Primerica.

The current low interest rate environment makes it difficult to achieve the desired profit standards for fixed annuities. AEGON USA has built long-term relationships with many institutions and these relationships have enabled the Company to offer other product lines such as variable annuities, life insurance, mutual funds and 401(k) products. Lower interest rates have resulted in lower withdrawal and surrender rates. Most of the fixed annuity sales occur at banks. The primary competitors for fixed annuity sales are AIG, Glenbrook, Western & Southern, American Enterprise Life and Nationwide.

Variable annuity sales have declined due to the removal of the guaranteed minimum income benefit. A new product with enhanced death and living benefit guarantees, which utilizes an active portfolio reallocation strategy, was introduced in late 2003 in an effort to replace sales lost due to the discontinuance of the GMIB. Primary competitors in the variable annuity market are Hartford, Equitable/AXA, Met Life, AIG/Sun America and Pacific Life.

In the institutional product market, AEGON USA s competitors include insurance companies, domestic and foreign banks and institutional investment advisors. Clients include investment managers, guaranteed investment contract (GIC) managers, 401(k) and 457 plans, pension plans, 529 college savings plans, money market funds, municipalities, U.S. and international investors, and other capital market sectors.

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AEGON USA believes it is the leading issuer of synthetic GICs (source: reports of LIMRA International, U.S. Institutional Pension Sales and Assts, 2002 Sales and Assets). AEGON Institutional Markets Division pioneered the use of synthetic GICs in 1991 and competes against banks such as JP Morgan, State Street Bank and UBS. AEGON USA is also among the top ten traditional GIC providers. Other insurers in the traditional GIC segment include Prudential, Principal Financial, John Hancock, Metropolitan Life and New York Life (source: reports of LIMRA International, U.S. Institutional Pension Sales and Assets, 2002 Sales and Assets).

AEGON USA holds a leadership position among issuers of floating rate funding agreements. Other leading competitors in the funding agreement category are GE Financial, Metropolitan Life, New York Life, Travelers and Allstate.

Funding-agreement-backed medium term notes are marketed by AEGON Institutional Markets in the U.S. and abroad. Monumental Life Insurance Company, the issuing insurance company, is among the top ten issuers in this fast-growing segment (source: Standard & Poor s Funding Agreement Bank Note Issuance Chart Second Busiest Quarter on Record , publication date October 6, 2003). AIG, Metropolitan Life, Principal Financial, ING, John Hancock and Allstate also have leading positions.

AEGON Institutional Markets currently manages a near-constant book of USD 5 billion (book-value) funding agreements issued to municipalities. The leading competitors in the municipal GIC market are AIG, GE Capital, Bayerische Landesbank, Citigroup and MBIA.

The life reinsurance segment is experiencing reinsurance prices that are stabilizing and a flight to quality reinsurers. Facing less of a buyer s market, ceding companies are maintaining their existing pools or readjusting pools in response to concentration of risk or rating agency downgrades of pool participants. The reinsurance segment has also been experiencing continued consolidation, market exits, capital and capacity constraints and rating agency downgrades, which ease some competitive pressures.

Transamerica Reinsurance is among the top professional life and annuity reinsurers in the U.S., ranking 5th in 2002 in assumed new life business and 4th in 2002 in life reinsurance in-force (source: 2002 Munich Re report on U.S. life reinsurers). It ranks 3rd in 2002 in annuity reinsurance / structured solutions based on annuity reserves (source: Thomson Financial, July 2003, Schedule S, Part 1 & Part 3, Section 1). The main competitors for Transamerica Reinsurance are Swiss Re, ING Re, RGA and Munich Re.

The pension market continues to evolve and is very competitive with many bidders willing to sell services at low margins. The retirement plan industry has experienced slowing asset growth and plan formation growth rates as well as accelerating consolidation activities among the providers. AEGON USA s ability to achieve greater economies in operations will be realized if growth continues, technology improves and process management increases efficiency.

AEGON USA recently enhanced its investment approach to allow more flexibility to clients that want to replace or supplement an AEGON USA fund with a third party fund, but continues to be challenged by competitors that offer funds based on the clients specific performance criteria.

In the corporate defined contribution segment and the not-for profit segment, AEGON USA s main competitors are Fidelity, T.Rowe Price, Vanguard, Principal and AIG VALIC. AEGON USA s main competitors in the defined benefit segment and Taft-Hartley segment are Fidelity, Mass Mutual, New York Life, Principal and Prudential. In the small business retirement plan segment and the multiple employer plan segment, AEGON USA s main competitors are Principal, Manulife Financial, Fidelity, and Aetna Services.

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vi. Regulation

AEGON s U.S. insurance subsidiaries 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 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 and prescribe the type and amount of investments permitted.

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 have increased, both on a targeted and random or cyclical basis. Within the insurance industry, substantial liability has been incurred by insurance companies based upon their past sales and marketing practices. While AEGON USA has focused and continues to focus on these compliance issues, costs have increased as a result of these activities.

The National Association of Insurance Commissioners adopted, in December 1992, the Risk Based Capital for Life and/or Health Insurers Model Act (the Model Act), which was designed to identify inadequately capitalized life and health insurers. The Model Act provides for various actions, should an insurer s adjusted capital, based upon statutory accounting principles, fall below certain prescribed levels (defined in terms of its risk based capital). The adjusted capital levels of AEGON s U.S. insurance subsidiaries currently exceed all of the regulatory action levels as defined by the Model Act. Adjustments of adjusted capital levels by the regulators can impact AEGON USA.

The Gramm-Leach-Bliley Act (the Act), which was passed into law in November 1999, permits financial services companies, such as banks, insurers and securities firms, to affiliate with one another. The Act restricts the ability of these financial services companies in the United States to use and share consumer and customers non-public personal information with non-affiliated third parties. Exceptions to such restrictions on the use and disclosure of information exist for certain marketing activities and business functions such as servicing and underwriting of products. States are required to implement the Act s provisions with respect to insurers and are also permitted to impose stricter privacy standards. These privacy standards are in addition to existing privacy laws to which insurers are subject. Various Federal, state or local laws if passed, may further restrict the use of customer information and impact sales.

Both the Federal Trade Commissions (FTC) and the Federal Communications Commission (FCC) have recently revised their telemarketing rules, which they adopted under, respectively, the Telemarketing and Consumer Fraud and Abuse Prevention Act and the Telephone Consumer Protection Act. The FTC and FCC rules prohibit telephone solicitations to consumers who have placed their phone numbers on the national do-not-call registry. Some AEGON subsidiaries will see a reduction in their telemarketing efforts because of the revised FTC and FCC rules.

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 may require prior approval of the payment of certain dividends by the registered insurer to AEGON or certain of its affiliates. Since AEGON s primary source of income is dividends from its insurance company subsidiaries, its ability to meet its obligations and pay dividends to its shareholders may be affected by any such required approval.

Some of AEGON USA s investment advisory activities are subject to federal and state securities laws and regulations. AEGON USA s mutual funds 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 us 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 are sold to other sophisticated investors as private placements and are exempt from registration under both acts.

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Some of AEGON USA s subsidiaries are registered as broker-dealers under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act), and with the National Association of Securities Dealers, Inc (NASD). A number of AEGON USA s subsidiaries are also registered as investment advisors under the Investment Advisers Act of 1940. AEGON USA s insurance companies or 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 antifraud provisions and the terms of applicable exemptions.

The financial services industry, including 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. Such scrutiny and regulation have included matters relating to so-called market timing , late trading and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. We, like other companies in the financial services industry, have received inquiries and requests for information from regulators and others relating to our historical and current practices with respect to these and other matters, and expect that new rules and regulations governing such matters may be implemented. We are cooperating with these regulatory agencies and are responding to those information requests.

Certain of AEGON USA s divisions offer products and services to pension and welfare benefit plans subject to ERISA. ERISA is administered by the Department of Labor (DOL) and Internal Revenue Service (IRS). Accordingly, the DOL and IRS have jurisdiction over these AEGON USA businesses.

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

vii. Canada

AEGON Canada Inc. (ACI) is the holding company for AEGON s Canadian operations. Through its subsidiary companies, ACI operates multiple insurance, financial services, investment portfolio management and fund management businesses and provides wealth management solutions.

Total employment of AEGON Canada as at December 31, 2003 was 678.

Operations are divided into six business segments:

- life insurance;
- segregated funds;

- retail mutual funds;
- mutual fund dealership services;
- retail financial planning services; and
- investment portfolio management and counselling services.

The primary operating companies that comprise ACI are:

- Transamerica Life Canada;
- Money Concepts (Canada) Limited;
- AEGON Dealer Services Inc.;
- AEGON Capital Management Inc.; and
- AEGON Fund Management Inc.

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Transamerica Life Canada (TLC) offers term and tax-sheltered universal life insurance, segregated funds, guaranteed interest accounts and annuities. Money Concepts (Canada) Limited (MCC) is an independent Canadian financial planning company with an association of franchised planning centers, offering a diverse spectrum of planning, products and services to investors. With 84 offices across Canada, MCC is the only franchised financial planning company in Canada. AEGON Dealer Services Inc. (ADSCI) provides advisors and distributors with mutual fund and segregated fund dealership capability to the benefit of the MCC franchises and representatives, as well as to TLC s and AEGON Fund Management Inc. (AFM) s advisors across Canada. AEGON Capital Management Inc. (ACM) was created in November 2001 through 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 ACI, offering the imaxx brand of mutual funds to Canadian investors seeking customized portfolio solutions, as well as core fund portfolios featuring select investment managers from around the world.

Investment Products

AEGON Canada s current investment product offerings comprise the following: segregated funds, mutual funds, segregated funds offered through strategic alliances with investment management companies, guaranteed investment accounts, single premium annuities and leverage-lending programs through strategic alliances with bank and trust companies. The imaxx range of mutual funds is offered by AFM. TLC offers all of AEGON Canada s other investment products.

Life Insurance Products

The Life Products business unit of TLC provides life insurance products for individuals and companies across Canada. The portfolio includes universal life and traditional life insurance, predominantly term life and permanent life insurance, as well as accidental death and out-of-the-country medical insurance.

AEGON Canada s principle means of distribution includes a number of networks that are almost exclusively supported by independent advisors. The key channels of distribution are:

- independent managing general agencies;
- TLC owned and operated Profit Center Agencies;
- bank-owned national broker-dealers;
- World Financial Group; and
- other national, regional and local/niche broker-dealers.

TLC is incorporated under the Canadian Business Corporation Act and is regulated by the laws established in 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 relative to granting and revoking licences 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 is dependent upon the maintenance of its licences, at both a federal and provincial level. 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 not ore than two-thirds of whom can be affiliated with TLC.

The life insurance and securities operations of ACI are also governed by policy statements and guidelines established by industry associations such as the Canada and not more than two-thirds of whom can be affiliated with TLC.

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

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4.4 The Netherlands

i. General History

AEGON Nederland N.V. was incorporated under the name AGO Holding N.V. on December 27, 1972. AEGON Nederland N.V. became the holding for all Dutch insurance and banking activities after the merger between Ennia and AGO in 1983 and was renamed AEGON Nederland N.V. in 1986. AEGON s operations in the Netherlands are referred to collectively as AEGON The Netherlands.

The head office of AEGON The Netherlands is located in The Hague, with additional offices in Leeuwarden, Groningen, Nieuwegein, Utrecht, Amersfoort and Breda.

Total employment of AEGON The Netherlands as at December 31, 2003 was 6,034, including 1,269 agents.

The primary operating subsidiaries in the Netherlands are:

AEGON Levensverzekering N.V., The Hague;

AEGON Schadeverzekering N.V., The Hague;

AEGON Nabestaanden Zorg N.V., Groningen;

AEGON Spaarkas N.V., The Hague;

AEGON Bank N.V., Utrecht;

Spaarbeleg Kas N.V., Utrecht;

Meeùs Groep B.V., Amersfoort; and

TKP Pensioen B.V., Groningen.

AEGON The Netherlands is involved in both life and non-life insurance businesses and provides financial services and asset management.

ii. Recent Developments and Capital Expenditures and Divestments

AEGON The Netherlands announced in 2003 that it would be establishing a new organizational structure in 2004, which will enable it to work faster and be more flexible in response to customers wishes. The current business units will be replaced by five service centers and four marketing and sales organizations, each with its own qualities, characteristics and specialities. The service centers will be focused mainly on customer service and administration of products for pensions, life, casualty, banking activities and asset management. The service centers will be able to operate more efficiently though integration of IT systems and through standardizing products and product components. The marketing and sales organizations, will serve different sales channels, such as independent agents, AEGON affiliated organizations and AEGON The Netherlands s own advisers. The number of employees is expected to be reduced over the coming three years through attrition.

On June 1, 2003, AEGON Schadeverzekering N.V. reached an agreement for the sale of a part of its recreational boating insurance activities to Avéro Achmea.

As at January 1, 2003 the figures of the following wholly owned subsidiaries are incorporated in the consolidated segment reporting by AEGON The Netherlands:

Meeùs Groep B.V.;

Elan Financieel Adviesbureau B.V.;

Nedasco B.V.; and

Adviespunt Nederland Associatie B.V. (Spaaradvies).

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On December 23, 2002 AEGON The Netherlands acquired TPG KPN Pensioen B.V. (TKP Pensioen), an administrator of pension funds, which serviced approximately 200,000 participants at the end of 2003.

On July 2, 2002, AEGON Schadeverzekering N.V. reached an agreement for the sale of its glasshouse insurance activities to Achmea.

Nederlandsche Verzekerings Groep (NVG.) was transformed into AEGON Nabestaandenzorg N.V in 2002 to manage all funeral-related insurance business, which previously was spread over various business units. All life products previously managed by N.V.G. were transferred to AEGON Levensverzekering N.V. and AEGON Spaarkas N.V.

iii. Products and Distribution

AEGON The Netherlands offers five product lines:

- pensions;
- life insurance;
- non-life insurance;
- banking; and
- asset management.

Pensions

Pension products are sold by the AEGON Pensioen en Advies (AEGON Pension & Advice) and AEGON Bedrijfspensioenen (AEGON Corporate Pensions), while TKP Pensioen offers administrative services for large pension funds.

AEGON Pension & Advice services large companies as well as company pension funds and industry pension funds. Its main products are:

- Products for account of policyholders with guarantees (separate investment guaranteed contracts);
- Products for account of policyholders without guarantees (separate investment capital contracts);

- Medium and Small Sized Enterprises growth pensions;
- Medium and Small Sized Enterprises guarantee pensions;
- AEGON pension package (defined contribution); and
- AEGON guarantee pension (defined benefit).

Separate investment guaranteed contracts and separate investment capital contracts are defined benefit products with both single and recurring premiums and a disability rider. Profit sharing is based on the return of a pool of investments. Large group contracts also share technical results (mortality risk and disability risk). The assets are owned by AEGON Levensverzekering N.V. but earmarked to form the basis for profit sharing for these contracts. The contract period is typically five years and the premium tariffs are fixed over this period. Separate investment capital contracts are only sold to company pension funds and AEGON Levensverzekering N.V. has the option not to renew a contract at the end of the contract period, so that the longevity risk lies with the pension fund. Separate investment guaranteed contracts provide a guarantee on the benefits paid. The longevity risk therefore lies with AEGON Levensverzekering N.V.

AEGON guarantee pension and medium and small sized enterprises growth pensions, sold by the business unit AEGON Corporate Pensions, are also defined benefit products with single and recurring premiums. The initial contract period is ten years, with renewals for five-year periods. Profit sharing is based on excess interest earned on the general account investment portfolio. Premium tariffs are fixed over the contract period and the longevity risk lies with AEGON Levensverzekering N.V. Minimum interest guarantees are given for nominal benefits, based on the 3% actuarial interest (4% on policies sold before the end of 1999), after retirement of the employee.

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AEGON Levensverzekering N.V. introduced two new pension products: AEGON Pension Investment and Pension Accelerator. AEGON Pension & Advice sells directly to clients and through actuarial advisors. AEGON Corporate Pensions sells pensions to small and medium - sized companies through intermediaries.

TKP Pensioen offers administrative services for large pension funds. During 2003 this unit enlarged its already solid base with the acquisition of the Uitvoering Werknemersverzekeringen (UWV) account which increased total participants by approximately 50,000 participants to a total of 200,000 participants.

Life Insurance

AEGON Particulieren (AEGON Personal Lines) principally sells standard financial products. Its most important products are discussed below.

The Fund Plan and Savings Plan Products. These products are mainly endowment and savings type products, both single premium and recurring premiums with profit sharing based on the selected fund performance. A customer may choose to invest in a wide variety of AEGON funds. For investments in the mix fund and/or in the fixed income fund, AEGON Personal Lines has issued a guarantee of 3% (4% on policies sold before the end of 1999), at the maturity date if the policyholder has paid the premium for a consecutive period of at least ten years, or on the death of the insured.

Endowment and Savings Products. These types of products have recurring premiums with contractual surplus interest profit sharing.

Mortgage Savings Products. The insured typically takes out a mortgage loan from AEGON Personal Lines for a period of twenty or thirty years. The loan is repaid in full at the redemption date with the proceeds from a savings policy. In principle, in case of surrender, the policyholder loses the tax benefit. Upon the death of the policyholder within the policy contract period, the benefit payment is used to repay the mortgage loan. The interest paid on the loan is normally tax deductible and the customer retains the full income tax benefit over the contract period as long as there is no early redemption. The interest paid on the mortgage loan usually equals the interest accumulated on the account balance under the savings policy. To benefit from the growth in the mortgage market, AEGON Personal Lines has introduced a new mortgage investment product. This product is based on the same principles as the original mortgage savings products, except that the customer can choose the funds in which to invest the savings premiums. The ultimate amount available at the maturity date will therefore vary depending on the performance of the underlying funds.

Spaarbeleg Kas N.V. and AEGON Spaarkas N.V. sell Spaarkas products, which are life products with both single and recurring premiums and profit sharing based on a tontine system. The main characteristic of a tontine system is that when death occurs, the balance in the investment account 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 (a new series starts at the beginning of each calender year) to which the deceased policyholder belonged. In addition to the tontine products, Spaarbeleg Kas N.V. sells a number of tax driven products like Futureplan (Toekomstplan) and Index Plan (Koersplan) and has provided better access to products and services in order to meet consumers requests with respect to pension issues. Products are sold through a number of intermediaries and by direct marketing.

AEGON Van Nierop caters to the high income and high net-worth segment of the market. Customers are served directly or through a network of high-quality intermediaries. AEGON Van Nierop s products relate to capital accumulation, capital protection, capital consumption and estate planning and are customized to this specific segment.

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AXENT/AEGON transferred its group life business to the business unit Bedrijfspensioenen, the funeral business to AEGON Nabestaandenzorg (AEGON NBZ) and the administration of its life and savings portfolio to AEGON Particulieren. AXENT/AEGON now acts as a sales organization for other units in AEGON The Netherlands.

Following the transfer of the funeral insurance portfolios of Nederlandse Verzekeringsgroep (N.V.G.), AEGON Personal lines and AXENT/AEGON subsidiaries (LPU Verzekeringen N.V. in 2002 and AXENT/AEGON Uitvaartverzekeringen N.V. in 2003) to AEGON NBZ, this unit now manages more than two million policies in this market, placing it among the top three providers of funeral insurance in the Netherlands (source: Pensioen- en Verzekeringskamer). Further growth potential in this market is achievable by introducing new distribution methods and new products that enable clients to ensure their family s financial situation in the event of their deaths. AEGON NBZ seeks to distinguish itself from its competitors through a broad approach to financial care for surviving relatives and estate planning.

Non-life Products

AEGON Non-Life Commercial Lines targets approximately 500,000 small and medium-sized companies with a maximum of 100 employees. This unit aims to shift from a focus on business continuity to providing a range of products for the asset and life protection of employers and employees, covering both business capital (property and cash assets) and the risk of employees inability to work.

AEGON Non-Life Personal Lines offers accident & health and property & casualty insurance products to individuals. Distribution takes place via independent agents.

Banking

AEGON Bank N.V. supplies savings accounts with simple conditions. The products are sold under the Spaarbeleg name through a multiple channel strategy, with franchise organizations contributing the majority of AEGON Bank N.V. total sales but with internet sales growing.

AEGON Financiële Diensten B.V. sold security lease products via independent agents. Security lease products provided customers with a loan allowing these customers to acquire securities. In the event of poor equity returns, the proceeds of the securities may over time prove to be insufficient to pay back the loans in full. AEGON The Netherlands discontinued selling security lease products in early 2003.

Asset Management

AEGON Asset Management s (AAM) approach is to further develop the institutional market by winning asset management customers in cooperation with AEGON Pension & Advice, while also assisting AEGON The Netherlands retail units in developing banking expertise. In 2002 and 2003, AAM launched twelve mutual funds and plans to expand product development further in order to offer a complete range of funds. AAM is also the asset manager for AEGON The Netherlands insurance subsidiaries.

AEGON The Netherlands has a very straightforward distribution strategy. The majority of AEGON The Netherlands products are sold through agents. Spaarbeleg Kas N.V., AXENT/AEGON and AEGON NBZ sell branded products under their own names through multiple channels, including direct marketing, specialized agents and tied agents.

Distribution units

The distribution units consists primarily of the Meeùs Groep, which is an intermediary company with its core activities in rendering financial advice and intercession in real estate. Within the financial advice segment, the Meeùs Groep has developed a broad range of activities such as insurance, pensions, mortgages, financing, savings and investments. In the real estate business the Meeùs Groep acts as a broker in both residential and commercial real estate. In addition to this, the Meeùs Groep is active in the real estate management business.

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iv. Asset Liability Management

The management of the investment portfolio of AEGON The Netherlands is based on the following asset liability management principles. Most liabilities are nominal and long term. Based on their characteristics a long-term, liability-driven benchmark is derived for the fixed income portfolio, based on which scenarios and optimization analyses are conducted with respect to asset classes such as equities, fixed income and real estate, but also for various sub-classes such as private equity, hedge funds and credits. The result is an optimal asset allocation representing different equity risk-return profiles. Constraints like the minimum required return on equity and maximum solvency risk determine alternative strategic investment policies.

The strategic investment strategy for AEGON The Netherlands is determined and monitored by the Investment Committee and the asset allocation for the subsidiaries and business units is determined by the Asset Liability Committee in line with the risk profile determined by the Investment Committee.

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 strategic composition based on their short-term and medium-term investment outlook. Risk based restrictions are in place to monitor and control the actual portfolio compared to the strategic portfolio.

v. Reinsurance ceded

Life

The life entities have a two-part reinsurance strategy. The first prong is a profit sharing contract between AEGON Levensverzekering N.V. and Swiss Re, with retention of EUR 900,000 per policy. Under the second prong facultative reinsurance of AEGON The Netherlands mortality and morbidity risk lies with a small number of reinsurers of which De Hoop is the most significant.

Non-life

AEGON The Netherlands maintains reinsurance on an excess of loss basis for its fire insurance businesses, with a retention of EUR 4.5 million per risk and EUR 13.7 million per event. AEGON The Netherlands motor business is also reinsured on an excess of loss basis.

vi. Competition

Competition in the Dutch insurance market is strong due to a large number of active companies. In terms of gross life premium income over 2002, AEGON The Netherlands was in the top three. In terms of non-life premium income, AEGON The Netherlands was in the top ten in 2002 (source: VVP-magazine 2003)**.**

vii. Regulation

There are three institutions responsible for the supervision of financial institutions in the Netherlands:

Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets) - AFM;

De Nederlandsche Bank (the Dutch Central Bank) - DNB; and

Pensioen- en Verzekeringskamer (the Pension and Insurance Supervisory Authority) - PVK.

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The allocation of responsibilities between these three entities is formalized in a convenant. The AFM is responsible for supervising corporate governance and the provision of information to consumers (supervision on market conduct) and the DNB and PVK supervise solvency. More detailed guidance on market conduct supervision is set out in Further Regulations on Market Conduct Supervision of the Securities Trade 2002 .

The PVK and DNB have expressed an intention to merge into a single authority for supervising the solvency of financial institutions. The merger is expected to be finalized in early 2005.

The 1992 European Union Insurance Directives were incorporated into Dutch law in 1994. The Directives are based on the home country control principle, pursuant to which an insurance company that has a license issued by a regulatory body in its home country can conduct business, either directly or through a foreign branch, in any member country of the European Union. An insurance company must be licensed to conduct each type of business in which it participates. The regulatory body that originally issued the license is responsible for monitoring the solvency of the insurer.

Insurance companies in the Netherlands fall under the supervision of the PVK pursuant to the Act on Supervision of Insurance Companies 1993 mandate. Under this mandate all life and non-life insurance companies that fall under the PVK s supervision must file audited regulatory reports before May 1. These reports are primarily designed to enable the PVK to monitor the solvency of the entity involved. They include a consolidated balance sheet, a consolidated income statement, extensive actuarial information and detailed information on investments.

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

In the Netherlands, the same corporation cannot conduct both life insurance and non-life insurance businesses. Nor is one legal entity allowed to operate both insurance and banking businesses.

The following Dutch entities in the AEGON Group fall under the supervision of the PVK:

AEGON Levensverzekering N.V.;

AEGON Schadeverzekering N.V.;

AEGON Spaarkas N.V.;

Spaarbeleg Kas N.V.;

AXENT/AEGON Leven N.V.;

AEGON Nabestaanden Zorg N.V.;

Axent/AEGON Uitvaartverzekeringen N.V.;

Axent/AEGON Sparen N.V.; and

Axent/AEGON Schade N.V.

Dutch life insurance companies are required to maintain equity equal to E.U. directives (approximately 5% of their general account technical provisions or, if these companies do not provide an interest guarantee, an amount of equity equal to approximately 1% of the technical provisions with investments for the account of policyholders).

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

AEGON Bank N.V. falls under the supervision of the DNB, pursuant to the Act on the Supervision of the Credit System 1992 mandate. The bank must file monthly regulatory reports and an annual report. The annual report and one of the monthly reports must be audited.

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4.5 United Kingdom

i. General History

The principal holding company within the AEGON UK group of companies is AEGON UK plc (AEGON UK), incorporated as a public limited company under the Companies Act 1985 and having its registered office in England. It is a company limited by shares, incorporated on December 1, 1998. Total employment as at December 31, 2003 was 4,864, which includes 137 agent-employees.

The primary operating subsidiaries of AEGON UK are:

- Scottish Equitable plc, Edinburgh;
- Guardian Assurance plc, Lytham St Annes;
- Guardian Linked Life Assurance Ltd, Lytham St Annes;
- Guardian Pensions Management Ltd, Lytham St Annes;
- AEGON Asset Management UK plc, London;
- HS Administrative Services Ltd, Chester; and
- AEGON UK Distribution Holdings Ltd, London.

ii. Recent Developments and Capital Expenditures and Divestments

AEGON UK undertook a comprehensive review of its organizational structure and governance during 2003. As a result, a revised structure was implemented in October 2003, which was felt to be more responsive to the market, removed duplication and strengthened overall governance. AEGON UK now operates three distinct businesses:

- AEGON Life and Pensions all manufacturing and sales operations relating to life and pensions markets in the UK. This business primarily operates under the Scottish Equitable brand name;
- AEGON Asset Management investment management operations; and

AEGON UK Distribution	network of distribution intermediary businesses.

In anticipation of the major changes impacting the UK market, namely regulatory changes and the move to the 1% annual management charges price cap introduced by legislation in the United Kingdom, Scottish Equitable plc has invested GBP 130 million over the last three years in a Business Change Program. The Business Change Program involves new systems, improved processes, web based processing and the creation of a more customer-orientated organization and focuses on delivering improved customer service, lower unit costs, increased controls and improved speed to market. This program was completed during 2003.

iii. Products and Distribution

AEGON UK is a major financial services organization specializing in the pensions, investments and protection markets. Over half of AEGON UK s sales relate to corporate business. AEGON UK increased its position in 2003 in the independent financial advisor channel. In addition to manufacturing these life and pension products, AEGON UK also has a growing asset management business and administrative services business and has recently acquired distribution businesses.

Most of AEGON UK s products provide policy charges, which increasingly relate to a management charge for funds under management. Older contracts continue to have other policy-based or transaction-based charges such as bid/offer spread..

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Pensions

The pensions market experienced significant decline in gross sales during 2003 of government-led products with a 1% annual management charge, which we believe resulted from lower consumer confidence and economic outlook.

As a result of the launch of the stakeholder pension product, many other pensions products were pressured to reduce charges, which led to a high level of sales activity in terms of both new schemes and transfers of existing schemes. It has also been necessary to protect existing business by reducing the charge structure in force to some extent. There is expected to be potential for some relaxation of price cap levels if government targets for higher private provision are to be met.

During late 2002 and 2003, the government in the United Kingdom announced changes to many aspects of pension legislation and taxation. The most significant aspect related to the introduction of a simpler and unified tax regime, which will apply to all types of pension arrangements. The details are still emerging, but it is currently anticipated that implementation will occur in April 2005. The changes will impact all UK pension providers requiring reviews of product ranges and supporting infrastructure.

Sales of more specialized pensions have also grown significantly over the last few years, particularly in the area of income drawdown and phased retirement products which allow individuals up to the age of 75 to access part of their pension income without having to fully purchase an annuity until a later date.

Group Pensions. The sale of group pensions is the primary focus of Scottish Equitable plc (SE). These are pension funds for the employees of corporate customers and cover a range of benefit options, which are predominantly defined contribution. At retirement, the accumulated pension fund is used to purchase an annuity once any cash (within limits) has been taken. SE also sells and administers defined benefit pensions. Although the market for new schemes of this type of product has decreased in recent years, opportunities remain to take over the administration of these schemes.

Group pension products include flexible features such as access to a range of both internal and external funds, with premiums primarily paid monthly based on a pre-agreed proportion of salary costs. Single premium transfers are also common following the initial sale.

Technology plays an increasingly important role in both the initial sale and the on-going provision of services related to these products. SE has developed a market-leading technology solution called Smartscheme, which allows the customer and the intermediary to interact with SE on-line throughout the process.

Individual Pensions. SE also offers a comprehensive range of pension products for individuals. These include stakeholder pensions, pensions for executives and transfers from other schemes and policies allowing an individual to supplement corporate pensions, called free standing additional voluntary contributions. In addition, SE is a leading player in income drawdown and phased retirement products aimed at individuals with significant pension funds who do not want to invest in an annuity immediately upon retirement.

UK and Offshore Bonds

AEGON UK distributes both UK and offshore bonds. The difference between these bonds lies in the tax advantages related to each type of bond, as offshore bonds allow gross rollup of assets, allowing personal tax to be deferred until the monies are repatriated to the UK.

UK Bonds. With-profit bonds are life products, which give access to the with-profit fund of the life company. The SE with-profit fund allows policyholders to share the risk of market volatility through a smoothing mechanism. This fund is ring-fenced for the benefit of policyholders, so that AEGON shareholders are not exposed to any risk or benefit relating to this smoothing. The bond wrapper provides a tax efficient means of investing, as withdrawals (within certain limits) are deemed capital reductions rather than income.

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With-profit products have received a large amount of regulatory attention over the past three years. The primary focus has been on increasing the transparency of the product in order to clarify how the bonuses applied relate to the underlying fund returns. Also, a recent report sponsored by the UK government questioned the tax breaks applied to the bond wrapper. These factors have had a significant negative impact on the UK bond market in 2003.

During 2002, SE launched a range of with-profit funds that represents the next generation of the product. These funds continue to provide protection against market volatility but have no guarantees. The calculation of value is based on a published formula, thus achieving the transparency required by the public and the regulators.

SE also offers unit-linked bond products, which allow access to a range of internal and external funds, through the bond wrapper mechanism described above.

Offshore Bonds. Scottish Equitable International Holdings (SEIH) provides sophisticated packaged investment products with tax advantages for UK and overseas clients.

SEIH launched three new products during 2002: the Money Market Portfolio, the delegated custodian private client product (the Dublin Private Client Portfolio) and the Investment Portfolio. The Money Market Portfolio allows access to low-risk money market fund investments within the tax efficient structure of an offshore bond. This is distributed through independent financial advisors to both corporate investors and high net-worth individuals. The Dublin Private Client Portfolio caters to investment managers and private banks and allows the aggregation of a custom-made portfolio of assets. The Investment Portfolio is a single premium unit linked contract which invests in internal funds. These products were enhanced during 2003.

In addition, SEIH sells unit linked bonds and has an inheritance tax planning product.

Individual Protection

AEGON Individual Protection (AIP) provides an innovative individual protection product under the collective brand name of Scottish Equitable Protect. The first offering of the Scottish Equitable Protect product was made in 2001 and consists of three menu based products catering to the personal, mortgage and business protection markets, respectively.

One of the core strengths of this product is market leading underwriting capability that allows a comprehensive array of cover to be provided without the complexity usually associated with this type of insurance. Intermediaries are provided with direct access to underwriters together with underwriting help desks, newsletters and field underwriting techniques.

The individual protection market is segmented between price-led and value-led sales, the former relating to a strong re-brokering market. AIP focuses on the value-led portion of the market where demand is less price sensitive due to the importance to consumers of flexibility and of the ability to combine benefits in one place.

The product range was further enhanced in 2002 with the introduction of income protection products that provide insurance for unemployment due to illness or accident. During 2003, many reinsurers withdrew from the guaranteed critical illness market as medical advances made the product uneconomic. As a consequence, AIP withdrew from this market and will offer renewable contracts only.

Group Risk Contracts

Scottish Equitable Employee Benefits (SEEB) deals exclusively through independent financial advisors and offers a range of flexible corporate protection products to fulfil the needs of employers and employees. SEEB offers these group risk contracts through its Corporate and Employee Protection Menus.

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The Corporate Protection Menu allows companies to create tailored employee benefits packages. The menu offers a number of different coverages that can be mixed and matched, including group life coverage, income protection, critical illness protection and group private medical coverage. The Employee Protection Menu adds an additional layer of flexibility where the individual employees can choose benefits within a pre-defined menu at the employer s cost.

Mutual Funds

AEGON Asset Management UK (AAM UK) is a major provider of fund management services both within the AEGON UK group and to institutional customers and individuals. As at December 31, 2003, AAM UK managed approximately GBP 34 billion of funds, providing both mutual and segregated funds for clients.

AAM UK is a participant in the corporate bond market, with more than GBP 14 billion invested. A dedicated sales force has been established to exploit this capability in the institutional market and AAM UK continued to win new mandates during 2003.

Advice

Investment in distribution businesses by insurance companies has recently become more attractive due to new regulations, which come into force in the UK market during 2004. Following distribution business acquisitions during 2002 and 2003, AEGON now has a significant position in the UK independent financial advisor market, having taken majority interests in six distribution companies and minority stakes in three others.

These firms deliver advice relating to financial needs to a range of customers (both individuals and corporates) using a range of delivery methods (primarily face to face but also using media and worksite marketing).

iv. Distribution Channels

AEGON UK s principal means of distribution has been through the independent financial advisor (IFA) channel in the UK market. These advisors provide their customers access to all available products and must demonstrate that the best advice is given to their client.

There are approximately 28,000 active registered independent financial advisors in the United Kingdom, many of whom are grouped into networks of advisors, who act as large national distributors. The thirty largest of the 5,300 IFA firms operating in AEGON UK s key markets employ 80% of the registered independent financial advisors. AEGON UK has strong relationships with independent financial advisors across the market, but is particularly involved with the networks and with large local firms.

To support this activity, there are approximately 330 broker-consultants based in the United Kingdom, operating out of seventeen local branch offices. Relationship management is a core element of achieving success in the intermediate channel. Scottish Equitable plc is able to support local independent investment advisors through this branch network in areas such as business development and training.

v. Asset Liability Management

Investment committees are in place for SE plc and Guardian Assurance plc and these committees, which report to the appropriate Boards of Directors, meet quarterly to set benchmarks/risk profiles for the investment managers and to monitor performance against these benchmarks. Additionally, the investment committee of the Board of Directors of AEGON UK reviews the policies and processes of its internal manager on a quarterly basis.

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With respect to asset liability management, committees are in place to focus on monitoring regulatory capital requirements and ensuring close matching of assets and liabilities for the corporate risk business. Asset liability management committees meet monthly to agree on any changes required for close matching. For the with-profit business, AEGON UK s general philosophy is to match guarantees with appropriate investments. However, the nature of with-profit businesses prevents perfect matching and the role of the committee is then to monitor the solvency/capital implications of any mismatching on a monthly basis. On an annual basis, detailed reports are produced for the relevant subsidiary Boards and the AEGON UK Board covering the impact of a range of investment scenarios on the solvency of each of the funds. These reports allow a central investment strategy to be agreed to and established for the with-profit funds.

Guaranteed annuity options (GAOs) are a major source of potential risk in the UK market. The SE exposure to GAOs has been reduced by the purchase of a range of swaptions designed to match the interest rate risk inherent within the GAOs.

AEGON UK uses derivatives as part of the asset management process in both the unit-linked and with-profits funds. The principal derivatives used are exchange-traded equity and bond futures. The decisions to implement and execute are carried out by separate bodies. Trades and standing positions are reviewed on a daily basis by a specialist team and circulated for confirmation by the relevant fund managers on a weekly basis.

The use of exchange-traded derivatives within the with-profits funds is consistent with efficient portfolio management: it is done either as a strategic overlay that is cheaper to implement by derivatives or to establish a strategic position in advance of implementation in physical securities. The main exception is the swaption purchased in relation to GAOs. Exchange-traded derivative positions are cleared through a central clearer and margins are reviewed daily.

Investment exposure to any single counterparty is limited by an internal framework that reflects the limits set by the regulatory regime. This applies both within asset classes (equities, bonds and cash) and across all investments. The standing positions against these limits are reviewed monthly.

vi. Reinsurance

AEGON UK reinsures mortality and morbidity risk where it believes it is prudent and economically sound to do so. On individual products, AEGON UK seeks to obtain insurance coverage for 90% of the risk for life business. For group business, AEGON UK seeks to obtain insurance coverage for 50% of life business. AEGON UK has a minimum credit rating requirement of AA by Standard & Poor s for reinsurers to which risk is ceded. Any decision to use a reinsurer with a lower credit rating requires the agreement of AEGON s reinsurance committee.

AEGON UK also uses reinsurance to offer pension contract-holders access to a number of external fund management organizations. Under these contracts, which relate to unit-linked businesses, the unit liability is reinsured to the third party organization. The credit risk relating to the investments is borne by the pension contract-holders while AEGON UK retains ultimate credit risk relating to the external fund managers.

vii. Competition

AEGON UK faces strong competition in all its markets from three key sources life and pension companies, investment management houses and independent financial advisor firms.

The life and pension market has been concentrated over the past few years amongst the largest companies and those perceived to be financially strong. Consolidation has been a much less significant factor in recent years. In addition, AEGON UK has faced significant pressure from the largest two players in the market who have been seen as a safe haven by intermediaries.

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The retail investment market is very fragmented with the leading positions changing on a fairly regular basis. This is particularly influenced by performance figures. Competition is very intense and leading market shares are typically below 10%.

On the institutional side, the market has been moving towards more specialist mandates and away from mixed funds. There is a relatively small number of distributors and competition surrounds the quality of internal processes and brand names.

The independent financial advisor market in the United Kingdom is fragmented, with a large number of relatively small firms. There has been significant consolidation activity during 2003 as a result of financial pressures in the market but fragmentation is still high with further consolidation expected. There are few firms with nationwide presence or a well known brand outside local areas.

viii. Regulation

Most of AEGON s UK companies are regulated by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Financial Services Authority acts as both 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 the regulated companies. New rules relating to capital requirements for life insurers are due to be implemented in the second half of 2004, which could have a significant impact on levels of surplus capital in the UK industry.

All directors and some senior managers of AEGON UK undertaking particular roles (for example as Appointed Actuary, Fund Managers and Dealers and Salesmen) enter into direct contracts with 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.

SE international business includes three corporations: a Luxembourg-based life insurance company (Scottish Equitable International société anonyme), a Luxembourg-based mutual fund management company (Scottish Equitable Advisers société anonyme) and an Italian sales and marketing company (Scottish Equitable Italia Sarl). These companies are regulated by their respective local authorities.

4.6 Hungary

i. General History

The ÁB-AEGON Általanos Biztosító Rt (ÁB-AEGON) has been a member of the AEGON Group since 1992. The legal predecessor of the company was the state-owned ÁB, which was incorporated in the 1940 s. ÁB-AEGON is a limited liability company. It operates in Hungary and has its head office in Budapest. ÁB-AEGON s main operations are life insurance, general insurance and asset management.

ÁB-AEGON has four subsidiaries:

- AEGON Securities;
- AEGON Real Estate;
- AEGON Pension Fund Management Co.; and
- AEGON Hungary Fund Management Co.

ÁB-AEGON operated in a divisional structure until it was restructured in 2000. Operations are currently divided by sales channels and functional areas.

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ii. Products and Distribution

ÁB-AEGON is a composite insurance company offering both life insurance and non-life insurance products. The core business products are life, pension, mortgage and household insurance. The life insurance product portfolio consists of traditional general account products and unit-linked products, although in recent years unit-linked sales have been much more significant than general account product sales. For general account products, profits on the investments are shared with the customer. For unit linked products, the clients money is managed in a separate account invested in investment fund units and only a management fee is deducted from the return. In the case of non-life insurance products, the company has a conservative underwriting policy, limiting ÁB-AEGON s risk. ÁB-AEGON s share in the household segment is 40%. Margins for household insurance are attractive and present ÁB-AEGON with opportunities for cross-selling life insurance products. Property and car insurance are also represented in the portfolio but are not core products.

Pension Insurance.

Pension insurance is a core business product of ÁB-AEGON, therefore pension fund services are also offered. The mandatory and voluntary pension funds of ÁB-AEGON are among the largest in the country in terms of managed assets and number of members (source: Hungarian Financial Supervisory Authority). The pension fund business concentrates its growth strategy in recruiting new members and purchasing other pension funds.

Traditional General Account Products.

These products consist of small life policies that were issued before &Aa