

AEGON N.V. IS THE HOLDING COMPANY OF ONE OF THE WORLD'S LARGEST LISTED INSURANCE GROUPS RANKED BY MARKET CAPITALIZATION AND ASSETS. THE AEGON GROUP HEADOFFICE IS IN THE NETHERLANDS AND EMPLOYS ABOUT 28,000 PEOPLE WORLDWIDE.

AEGON'S BUSINESSES FOCUS ON LIFE INSURANCE, PENSIONS, SAVINGS AND INVESTMENT PRODUCTS. THE GROUP IS ALSO ACTIVE IN ACCIDENT AND HEALTH INSURANCE, GENERAL INSURANCE, AND HAS LIMITED BANKING ACTIVITIES.

AEGON'S THREE MAJOR MARKETS ARE THE UNITED STATES, THE NETHERLANDS AND THE UNITED KINGDOM. IN ADDITION, THE 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 LOCAL BUSINESS UNITS, WITH A CONTINUOUS FOCUS ON COST CONTROL, USING TAILORED DISTRIBUTION CHANNELS TO MEET CUSTOMERS' NEEDS.

## **STRATEGY**

### **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 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.

## AT A GLANCE

### FINANCIAL RELATIONS

AEGON values the many relationships with the global investment community and is committed to the highest standards of integrity and fair disclosure.

The international business activities of the company are reflected in the geographical diversity of AEGON's investor base. To ensure efficient and effective access to the global capital markets, AEGON's common shares are listed on the stock exchanges in Amsterdam, Frankfurt, London, New York, Tokyo and Zurich. In addition, the company's stock is included in many major equity indices.

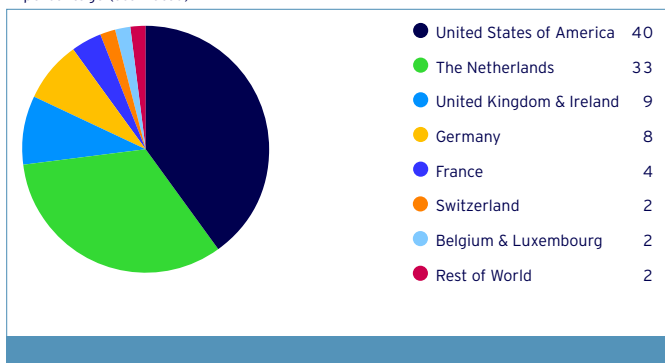
AEGON strives to continuously improve as an investor friendly company. In 2003, AEGON disclosed its embedded value analysis for the first time and provided more detail than most of the disclosure in the market. The analysis is used by the financial community to better understand AEGON's businesses and the value the company creates. The group also strengthened its financial communications by combining the investor relations and corporate communications departments. AEGON is focused on ensuring that both financial and non-financial information is disclosed accurately, completely, timely and in a consistent fashion.

AEGON is committed to ensuring investors receive an accurate portrait of the company's performance and prospects. To achieve this, AEGON has developed an active investor relations program that focuses on providing investors around the world with the information required to make sound investment decisions. This includes information on key factors that drive AEGON's businesses and influence its results, financial condition and value. AEGON actively maintains contact with the financial community through many mediums, including investor roadshows, webcasts, press releases and investor days, whilst ensuring equal access to information.

AEGON invites current shareholders, members of the financial community and potential investors to learn more about AEGON as an investment. Dedicated staff are available to answer questions and to maintain an open dialogue between AEGON and the financial community.

### SHAREHOLDER BASE AEGON N.V. COMMON SHARES

in percentage (estimated)



### SHARE PRICE INFORMATION (IN EURO)

	2003	2002	2001	2000	1999
Price – high	<b>13.47</b>	29.23	42.37	46.44	53.34
Price – low	<b>5.87</b>	9.04	22.15	32.28	33.41
Price – year-end	<b>11.73</b>	11.79	29.23	42.37	46.11
Price/Earnings Ratio	<b>11.30</b>	11.35	17.27	28.06	37.46

Source: Bloomberg, Datastream

### SHARE PRICE INFORMATION (IN USD)

	2003	2002	2001	2000	1999
Price – high	<b>14.80</b>	26.03	39.96	47.23	62.50
Price – low	<b>6.46</b>	8.87	20.96	30.88	34.68
Price – year-end	<b>14.80</b>	12.37	25.74	39.85	45.91

Source: Bloomberg

### LISTINGS

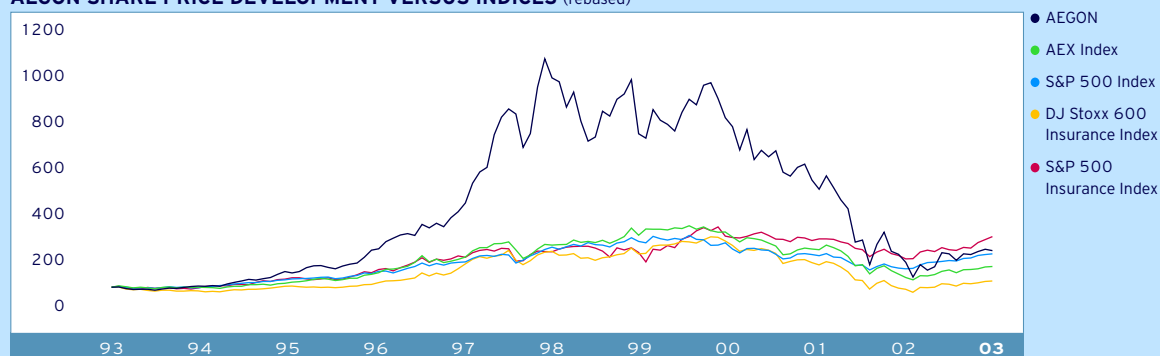
Amsterdam	Euronext Amsterdam
Frankfurt	Deutsche Börse
London	London Stock Exchange
New York	New York Stock Exchange
Tokyo	Tokyo Stock Exchange
Zurich	Swiss Exchange
Number of common shares (million) 12/31/2003	1,514.4
Free float of common shares* 12/31/2003	89%
Average daily trading volume 2003 in Amsterdam and New York (million common shares)	10.7

\* Percentage of outstanding common shares not owned by Vereniging AEGON

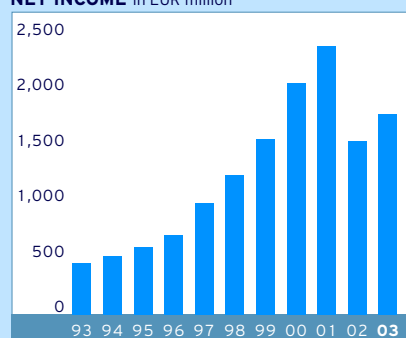
Source: Bloomberg

## AT A GLANCE

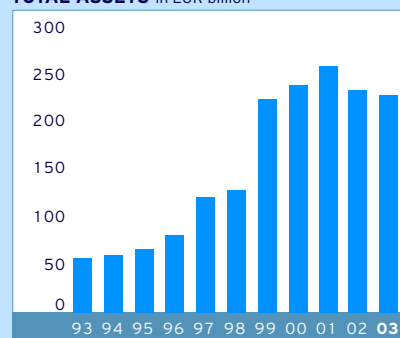
### AEGON SHARE PRICE DEVELOPMENT VERSUS INDICES (rebased)



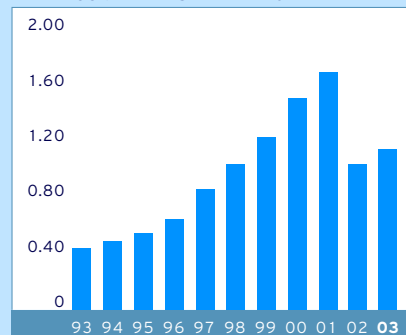
### NET INCOME in EUR million



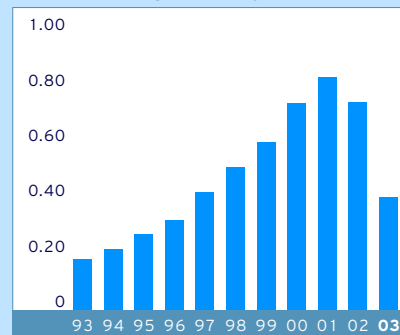
### TOTAL ASSETS in EUR billion



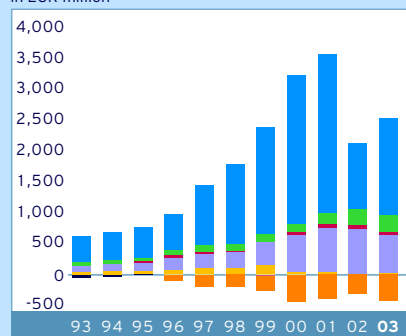
### NET INCOME PER SHARE in EUR



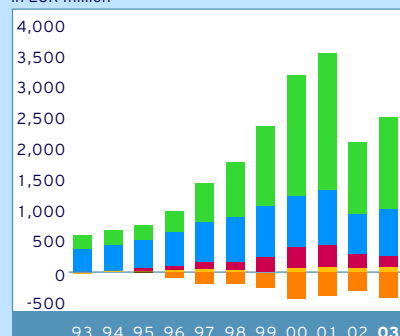
### DIVIDEND PER SHARE in EUR



### INCOME BEFORE TAX BY ACTIVITY in EUR million



### INCOME BEFORE TAX GEOGRAPHICALLY in EUR million





## AMERICAS

## USA

**NUMBER OF EMPLOYEES 13,630** (OF WHICH 2,928 ARE AGENT-EMPLOYEES)

**MAIN OFFICES** BALTIMORE, CEDAR RAPIDS

## MAIN PRODUCT AREAS

Traditional, universal and variable universal life insurance, bank- and corporate-owned life insurance, fixed and variable annuities, life reinsurance, supplemental health insurance, traditional and synthetic GICs, funding agreements, pensions and 401(k) plans, mutual funds

## MAJOR CUSTOMER SEGMENTS

Individuals, companies, institutions

## DISTRIBUTION CHANNELS

Independent agent and agent-employees, marketing companies, financial institutions, broker-dealers, wirehouses, affinity groups, direct response, worksite marketing, institutional intermediaries

[www.aegonins.com](http://www.aegonins.com)  
[www.transamerica.com](http://www.transamerica.com)

## CANADA

**NUMBER OF EMPLOYEES 678**

**MAIN OFFICE** TORONTO

## MAIN PRODUCT AREAS

Traditional, universal and term life, segregated funds, mutual funds, annuities, mutual fund dealer services, financial planning services, professional portfolio management

## MAJOR CUSTOMER SEGMENTS

Middle and upper income individuals

## DISTRIBUTION CHANNELS

Independent advisors, brokers, financial planners, financial institutions

[www.transamerica.ca](http://www.transamerica.ca)

## ASIA

## TAIWAN

**NUMBER OF EMPLOYEES 825** (OF WHICH 548 ARE AGENT-EMPLOYEES)

**MAIN OFFICE** TAIPEI

## MAIN PRODUCT AREAS

Traditional, variable universal, term and group life, accident and health insurance

## MAJOR CUSTOMER SEGMENTS

Middle and upper income individuals, companies

## DISTRIBUTION CHANNELS

Tied agents, brokers, banks, direct marketing

[www.aegon.com.tw](http://www.aegon.com.tw)

## EUROPE

## THE NETHERLANDS

**NUMBER OF EMPLOYEES 5,908** (OF WHICH 2,935 ARE MEEÛS EMPLOYEES AND 1,269 ARE AGENT-EMPLOYEES)

**MAIN OFFICES** THE HAGUE, LEEUWARDEN, NIEUWEGEIN

## MAIN PRODUCT AREAS

Individual, group life and pensions, savings and investment products, asset management, accident and health insurance, general insurance

## MAJOR CUSTOMER SEGMENTS

Middle and upper income individuals, companies, pension funds

## DISTRIBUTION CHANNELS

Independent and tied agents, direct marketing, franchise sales force, worksite marketing, internet

[www.aegon.nl](http://www.aegon.nl)

## UNITED KINGDOM

**NUMBER OF EMPLOYEES 4,864** (OF WHICH 137 ARE AGENT-EMPLOYEES)

**MAIN OFFICE** EDINBURGH

## MAIN PRODUCT AREAS

Individual and group life, pension products, asset management, mutual funds, third party pension scheme administration, financial advice

## MAJOR CUSTOMER SEGMENTS

Middle and upper income individuals, companies, institutions

## DISTRIBUTION CHANNELS

Independent financial advisors

[www.aegon.co.uk](http://www.aegon.co.uk)

## HUNGARY

**NUMBER OF EMPLOYEES 707**

**MAIN OFFICE** BUDAPEST

## MAIN PRODUCT AREAS

Life, pension and household insurance, asset management

## MAJOR CUSTOMER SEGMENTS

Middle and upper income individuals

## DISTRIBUTION CHANNELS

Independent and tied agents, pension advisors, direct marketing, worksite marketing

[www.aegon.hu](http://www.aegon.hu)

## SPAIN

**NUMBER OF EMPLOYEES 680**

**MAIN OFFICE** MADRID

## MAIN PRODUCT AREAS

Life, general and health insurance

## MAJOR CUSTOMER SEGMENTS

Middle income individuals, small and medium-sized companies

## DISTRIBUTION CHANNELS

Specialist life, independent and tied agents, brokers, internet, direct marketing, worksite marketing, financial institutions

[www.aegon.es](http://www.aegon.es)



# FROM THE BOARD

AEGON HAS DEMONSTRATED RESILIENCE AND IS WELL  
POSITIONED TO TAKE ADVANTAGE OF A RETURN TO  
A MORE STABLE MARKET ENVIRONMENT

## CHAIRMAN'S LETTER



DONALD J. SHEPARD  
CHAIRMAN OF THE  
EXECUTIVE BOARD

The Hague, March 11, 2004

Dear reader,

**On behalf of the Executive Board, I am pleased to present AEGON's 2003 annual report. Following a year that challenged the insurance industry as a whole, AEGON, demonstrating its resilience, performed well in 2003. We are well-positioned to take advantage of a return to a more stable market environment.**

Financial results for 2003 demonstrated the overall progress that has been made during the year. Full year earnings and life production showed good growth. Furthermore, the divestiture of most of Transamerica Finance Corporation's business reinforced our focus on core life activities.

The principles of our strategy and objectives are clear. AEGON will continue to focus on life and pension products in both its existing and selected new markets. We are committed to a decentralized structure that provides substantial autonomy for local operations, enabling all our businesses to organize themselves around the demands of their customers. We will seek a leading position in each of our chosen markets to generate benefits of scale, combined with profitable and sustainable growth.

Distribution continues to be the cornerstone of AEGON's overall business. Significant progress was made during the year in expanding our multi-channel distribution systems. While multi-channel distribution has been a particularly important growth driver in the United States and Taiwan, it has also become an increasingly important aspect of distribution activities in our other country units. 2003 not only saw the expansion of AEGON's distribution channels in the United States, but also the acquisition and integration of a number of brokers in the Netherlands and independent financial advisor firms in the United Kingdom.

Bank distribution partnerships also represent an opportunity to extend our reach and the partnership with Caja de Ahorros del Mediterráneo, one of the largest savings banks in Spain, is an important development. We will continue to develop distribution partnerships in those markets where it makes strategic sense to do so.

I am also pleased to report increased authority of AEGON's common shareholders as a result of the modernization of AEGON's corporate governance. In addition, the recent introduction of the Dutch Corporate Governance Code is an important step forward in improving the accountability of companies registered in the Netherlands. AEGON is committed to the highest standards of transparency and we welcome the adoption of the principles of the code.

Although the continued low interest rate environment and weak US dollar are not helpful, it will not change the direction of our business. Rising bond yields, combined with lower bond defaults and the upward momentum of equity markets, as well as growth in the United States economy, are significant factors that are beginning to have a positive impact on our business. AEGON has a leading position in an industry that is demonstrating real evidence of recovery after an unprecedented period of challenges in the financial markets. With focused execution of our growth strategy, we look to 2004 as a year in which AEGON will create value for all stakeholders.

Thank you for your support and interest in AEGON. I hope our 2003 annual report proves to be a valuable resource for you.

Yours sincerely,



Donald J. Shepard

Chairman of the Executive Board

## MEMBERS OF THE EXECUTIVE BOARD OF AEGON N.V.



**Donald J. Shepard** (1946), American nationality, started his career with Life Investors in 1970. Serving in various management and executive functions with Life Investors, he became executive vice-president and chief operating officer in 1985, a position he held until AEGON consolidated its other United States operations with Life Investors to form AEGON USA in 1989. He became a member of the Executive Board in 1992. As per April 18, 2002 he became chairman of the Executive Board of AEGON N.V.



**Joseph B.M. Streppel** (1949), Dutch nationality, started his career in 1973 at one of AEGON's predecessors in several treasury and investment positions. In 1986 he became CFO of FGH BANK and in 1987 he joined the Executive Board of FGH BANK. In 1991 he became chairman and CEO of Labouchere and in 1995 also of FGH BANK. In 1998 he became CFO of AEGON N.V. Since May 2000 he has been a member of the Executive Board of AEGON N.V.



**Johan G. van der Werf** (1952), Dutch nationality, started his career in 1973 as an officer in the Merchant Marine. In 1982 he joined one of the predecessors of AEGON as a district sales manager. From 1987 till 1992 he was chairman of the management board of Spaarbeleg and in 1992 he became a member of the management board of AEGON The Netherlands. As from 2002 he is a member of the Executive Board of AEGON N.V. and CEO of AEGON The Netherlands.



**Alexander R. Wynaendts** (1960), Dutch nationality, started his career with ABN AMRO in 1984 and had several assignments in Asset Management (Amsterdam) and Corporate Finance (London). In 1997 he joined AEGON's Group Business Development department and was promoted executive vice-president and head of Group Business Development in May 1998. In that position he was responsible for Asia. He is a member of the Boards of AEGON UK, AEGON Spain and ÁB-AEGON (Hungary). In 2003 he was appointed a member of the Executive Board of AEGON N.V.



## REPORT OF THE SUPERVISORY BOARD



M. TABAKSBLAT



H. DE RUITER



D.G. EUSTACE



O.J. OLCAY



T. REMBE



W.F.C. STEVENS



K.J. STORM



L.M. VAN WIJK



F.J. DE WIT

### ROLE OF THE SUPERVISORY BOARD

The duties of the Supervisory Board, which consists currently of nine non-executive members, are to supervise the Executive Board's management and to advise the Executive Board. With the active assistance of its four specialized committees, the Supervisory Board prepares nominations, resignations and the compensation of Executive Board members and discusses the quarterly results and the accounting principles, dividends, capital, internal control procedures and risk management, as well as the corporate strategy. We carried out our responsibilities in 2003 in close cooperation with the Executive Board, holding five regular meetings. The attendance at the meetings was over 95% on average. The meetings were often preceded or followed by informal meetings and Committee meetings. During a combined meeting of the Audit Committee and the Supervisory Board, AEGON's risk management was discussed in-depth.

### CORPORATE GOVERNANCE

Following our proposal to shareholders that AEGON N.V. exempt itself from the Dutch 'large company regime', shareholders approved this proposal during an extraordinary General Meeting of Shareholders held on May 9, 2003. This proposal had also been on the agenda of the annual General Meeting of Shareholders held on April 17, 2003, but shareholders could not decide on this issue during that meeting because the statutory required quorum was not represented. Following the decision taken by shareholders on May 9, 2003, AEGON N.V.'s Articles of Incorporation were amended on May 26, 2003. The most important changes concern the appointment of members of the Executive Board and Supervisory Board and the adoption of the annual accounts. Henceforth, the authority to appoint members of the Executive Board and Supervisory Board and to adopt the

annual accounts is vested with shareholders. For further details about AEGON's corporate governance please refer to page 61 and following.

### CORPORATE GOVERNANCE CODE

We discussed the draft of the Dutch Corporate Governance Code following its publication in July 2003. The final version of the code was published on December 9, 2003 and came into effect on January 1, 2004. We share the views of the Committee that drafted the code that the principles and best practice provisions included therein are reflective of the most current general views of good corporate governance in relation to Dutch listed companies. We have given our support to the implementation of the code within AEGON N.V.

At the annual General Meeting of Shareholders to be held on April 22, 2004, we hope to engage shareholders in a discussion of AEGON N.V.'s corporate governance as described in the corporate governance section of this annual report (pages 61 and following). This chapter describes in detail the application of the code by AEGON.

### SUPERVISORY BOARD MEETINGS

In accordance with the Board's Rules and Regulations, preparatory meetings preceded the regular meetings, attended by the chairman and vice-chairman of the Supervisory Board as well as the chairman and the chief financial officer of the Executive Board. All Executive Board members attended the regular meetings, held in March, June, August, November and December 2003. In December 2003, the Supervisory Board discussed the Executive Board's and its own composition and performance, without the Executive Board being present.

The meetings, during which the quarterly and annual results were discussed, were also attended by the director of the Group Finance department. Representatives from

## REPORT OF THE SUPERVISORY BOARD

Ernst & Young, AEGON's independent auditor, attended the discussion regarding the results for 2002. As usual, special meetings of the Supervisory Board were dedicated to AEGON's budget for 2004, to the business strategy and to a management overview, in order to identify top managers within AEGON worldwide. The all-day meeting regarding AEGON's business strategy was preceded and prepared by the Strategy Committee. Please refer to page 1 for AEGON's strategy.

Among the many topics discussed in our meetings in 2003 were embedded value and fair value, dividend policy, capital management and risk management. We discussed and supported the Executive Board's intention to disclose the embedded value, after which the 2002 Embedded Value Report was published on August 7, 2003. Following the adoption of the Sarbanes-Oxley Act 2002 (SOX) by the United States Congress, risk management has become an even more important issue for AEGON and after an extensive presentation on this subject we discussed the measures that AEGON has taken on risk management.

Attention was also devoted to joint ventures and divestitures. We approved AEGON's participation in the management buy-out of Unirobe, a group of insurance intermediaries. We also approved the start of a greenfield insurance operation in Slovakia as well as the partnership between AEGON and Caja de Ahorros del Mediterráneo, one of the largest savings banks in Spain. We also approved the Executive Board's decision to divest the commercial finance and real estate tax services' businesses of Transamerica Finance Corporation.

We discussed the consequences of SOX for AEGON and we amended in the light thereof the Rules and Regulations for the Supervisory Board, the Audit Committee Charter and the Terms of Reference of the Nominating Committee, the Compensation Committee and the Strategy Committee. We also adopted, in line with the SOX requirements, a 'Pre-approval Policy' for the services of Ernst & Young. All these rules are available on AEGON's corporate website: [www.aegon.com](http://www.aegon.com).

### SUPERVISORY BOARD COMMITTEES

The Supervisory Board relies upon four committees to prepare specific issues for decision-making by the Board. Each committee has four members, all drawn from the Supervisory Board.

The Audit Committee, established in 1983, has Mr. Eustace as chairman and Mrs. Rembe and Messrs. De Ruiter and Stevens as members. During the year, the Committee adopted a revised Audit Committee Charter to better reflect the Committee's purpose and responsibilities in the light of SOX and other developments in corporate governance. In accordance with the revised Charter, the Committee has the authority to: recommend the appointment or replacement of

the independent auditor, pre-approve all services provided by the auditor and retain independent advisors, as it deems appropriate. The Charter also states that the company shall provide appropriate funding to the Audit Committee for the payment of compensation to the independent auditors and any advisor employed by the Audit Committee and that the Committee shall establish procedures for the receipt and retention of complaints relating to accounting and internal control issues. The Audit Committee is comprised of independent members of the Supervisory Board who are experienced and competent in financial accounting matters. The chairman of the Committee, Mr. Eustace, is a financial expert, in accordance with the requirements of SOX.

The Committee held six meetings during 2003 attended by the Executive Board members and representatives from Ernst & Young. The discussions were dominated by its permanent agenda: the quarterly results, annual accounts and the auditing of these by Ernst & Young, the actuarial analysis, AEGON's Capital Plan and the report on currency exposure, accounting principles, internal control systems, the Risk Management Report as well as Ernst & Young's independence and fees. The Committee continued its practice in 2003 of meeting with the internal and independent auditors from AEGON's key operating countries. The Committee subsequently reported to the Supervisory Board on its findings and advised the Supervisory Board to recommend to the shareholders that Ernst & Young be reappointed as independent auditor.

It also discussed the consequences of SOX, especially the independence criteria, for AEGON, the Supervisory Board and its committees and for the independent auditor. Two meetings, in March and September, were devoted to AEGON's filings with the Security and Exchange Commission (SEC), the annual report (Form 20-F) and the first six months results (Form 6-K). The Committee also discussed the SEC's review following AEGON's filings for a shelf registration.

The Committee endorsed AEGON's decision to implement an internal audit function at group level and to enhance the group compliance and risk management function. The Committee notes with satisfaction the appointment in 2003 of a new Group Compliance Officer, a Group Risk Officer and a Group Internal Auditor.

The Compensation Committee, active since 1989, with Mr. De Wit as chairman and Messrs. De Ruiter, Stevens and Van Wijk as members, held five meetings, attended also by the Executive Board's chairman. In the course of 2003, Mr. Tabaksblat stepped down as chairman, in compliance with the Dutch Corporate Governance Code. Discussions concentrated on the remuneration of the Executive Board members and revisions to the Remuneration Policy. The Committee also discussed the granting of stock appreciation rights (SARs) to AEGON employees worldwide in March 2003 and advised the Supervisory Board to approve a SAR Program

for 2003 and 2004. Due to the condition in the SAR Program for the Executive Board that SARs or stock options will only be granted if AEGON's net income per share has increased, the Executive Board members did not receive any SARs (nor stock options) in 2003. For further details, please refer to the chapter on AEGON's Remuneration Report on page 70 and following and the remuneration of the Executive Board on pages 117 and 118.

The Nominating Committee, active since 1983, with Mr. Tabaksblat as chairman and Messrs. De Ruiter, Olcay and De Wit as members, held five meetings in 2003. Four meetings were also attended by the Executive Board's chairman, one meeting was being held without any Executive Board member present. The Committee discussed the functioning and the composition of the Executive Board and the Supervisory Board and the existing and forthcoming vacancies in both Boards.

The Strategy Committee, active since 2002, with Mr. Tabaksblat as chairman and Messrs. De Ruiter, Olcay and Storm as members, held three meetings, also attended by the Executive Board members. The purpose of this Committee is to review the major features of AEGON's strategy, to look at alternatives and to consider the material aspects relating to the implementation of the strategy. The Committee discussed AEGON's business strategy at length and prepared the agenda for the strategy meeting of the Supervisory Board held in June 2003.

#### **SUPERVISORY BOARD CHANGES IN COMPOSITION**

Mrs. Peijs stepped down from the Supervisory Board on May 20, 2003, following her appointment as the Minister for Transport, Public Works and Water Management of the Netherlands. We congratulate her with this appointment while at the same time regretting the fact that we have lost a valuable member on our Board.

Mr. Posthumus stepped down from the Supervisory Board on April 17, 2003, as he reached the retirement age of 70 years. He had been a member since 1997. We thank him for his valuable contributions to the Board's discussions.

Mr. Van Wijk was appointed as a member of the Supervisory Board as from April 17, 2003.

In 2004, Mr. de Ruiter will reach the retirement age of 70 years and will step down at the end of the annual General Meeting of Shareholders in that year. It is the intention that this vacancy be filled by nominating Mr. René Dahan, a former director of Exxon Mobil Corp. He will be nominated for appointment during the annual General Meeting of Shareholders to be held on April 22, 2004. Further details of Mr. Dahan will be provided together with the agenda for the annual General Meeting of Shareholders on April 22, 2004.

Also in 2004, the four-year terms of office of Mrs. Rembe and Messrs. Olcay and De Wit will end. Mr. De Wit has been a member of this Board for fourteen years and will, in compliance with the Dutch Corporate Governance Code, step down as a member at the annual General Meeting of Shareholders to be held on April 22, 2004. Mrs. Rembe and Mr. Olcay are eligible for reappointment. We intend to nominate them for reappointment during the annual General Meeting of Shareholders on April 22, 2004.

The departures of Mrs. Peijs and Mr. De Wit caused two vacancies in the Board. We will fill these vacancies.

In 2005, the four-year terms of office of Messrs. Eustace, Stevens and Tabaksblat will end. Messrs. Eustace and Stevens are eligible for reappointment. In compliance with the Dutch Corporate Governance Code, Mr. Tabaksblat is not available for reappointment and he will consequently step down at the end of the annual General Meeting of Shareholders to be held in 2005.

#### **EXECUTIVE BOARD CHANGES IN COMPOSITION**

Mr. Wynaendts was appointed a member of the Executive Board as per the close of the annual General Meeting of Shareholders held on April 17, 2003.

On November 1, 2003, Mr. Van de Geijn stepped down as a member of the Executive Board. We thank him for over 30 years of good service to the AEGON Group.

#### **ANNUAL ACCOUNTS AND DIVIDEND**

This annual report includes the annual accounts for 2003, as submitted by the Executive Board and advised upon and proposed by the Audit Committee. We recommend that shareholders adopt these accounts. A total dividend for 2003 of EUR 0.40 per common share is proposed.

#### **ACKNOWLEDGEMENT**

In what has been a year of real progress for AEGON under difficult circumstances, we would like to express our gratitude to the Executive Board and all members of the AEGON community worldwide for their strong commitment and dedication towards growing AEGON's business. We thank them for their unabated energy and professionalism in responding to difficult and rapidly changing markets.

The Hague, March 11, 2004  
On behalf of the Supervisory Board,  
Morris Tabaksblat, chairman

## MEMBERS OF THE SUPERVISORY BOARD OF AEGON N.V.

**M. Tabaksblat** (1937), chairman and Dutch nationality, is chairman of Reed Elsevier and a retired chairman and CEO of Unilever. He was appointed in 1990; his current term will end in 2005. He is also chairman of the Supervisory Board of TPG and a member of the International Advisory Board of Citigroup International (USA) and Renault Nissan (France/Japan). He is currently the chairman of the Nominating Committee and the Strategy Committee.

**H. de Ruiter** (1934), vice-chairman and Dutch nationality, is a retired managing director of Royal Dutch Petroleum Company and group managing director of Royal Dutch/Shell group of companies. He was appointed in 1993 and he will retire on April 22, 2004, having reached the retirement age of 70. He is a member of the Supervisory Boards of Royal Dutch Petroleum Company, Heineken N.V., Wolters Kluwer N.V. and Univar N.V. He is currently a member of the Audit, Compensation, Nominating and Strategy Committees.

**D.G. Eustace** (1936), British nationality, is chairman of Smith & Nephew plc (London, UK) and former vice-chairman of Royal Philips Electronics. He was appointed in 1997 and his current term will end in 2005. He is also a member of the Supervisory Boards of Royal KLM N.V., Royal KPN N.V. and Hagemeyer. He is currently the chairman of the Audit Committee.

**O.J. Olcay** (1936), American nationality, is vice-chairman and managing director of Fischer, Francis, Trees and Watts, Inc. (New York, USA). He was appointed in 1993 and his current term will end in 2004. He is eligible for reappointment. He is chairman of FFTW Funds Inc. in New York (USA), FFTW Funds Selection in Luxembourg and FFTW Funds in Dublin (Ireland). He is currently a member of the Nominating Committee and the Strategy Committee.

**T. Rembe** (1936), American nationality, is a partner of Pillsbury Winthrop LLP (San Francisco, USA). She was appointed in 2000 and her current term will end in 2004. She is eligible for reappointment. She is a member of the Board of Directors of SBC Communications Inc. (USA). She is currently a member of the Audit Committee.

**W.F.C. Stevens** (1938), Dutch nationality, is a retired partner/senior counsel of Baker & McKenzie and was a senator in the Dutch Parliament until June 2003. He was appointed in 1997 and his current term will end in 2005. He is the chairman of the Supervisory Board of NIB Capital N.V. and a member of the Supervisory Boards of N.V. Luchthaven Schiphol and TBI Holdings B.V. He is currently a member of the Audit Committee and the Compensation Committee.

**K.J. Storm** (1942), Dutch nationality, is a former chairman of the Executive Board of AEGON N.V. He was appointed in 2002 and his current term will end in 2006. He is the chairman of the Supervisory Boards of N.V. Royal Wessanen and Laurus N.V. and a member of the Supervisory Boards of Royal KLM N.V. and Pon Holdings B.V. He is also a member of the Board of Directors of Interbrew S.A. (Leuven, Belgium) and Baxter International Inc. (USA). He is currently a member of the Strategy Committee.

**L.M. van Wijk** (1946), Dutch nationality, is the CEO of Royal KLM N.V. He was appointed in 2003 as a member of the Supervisory Board and his current term will end in 2007. He is also a member of the Supervisory Boards of Randstad Holding N.V. and Martinair and the Netherlands Board of Tourism and a member of the Board of Directors of Northwest Airlines. He is currently a member of the Compensation Committee.

**F.J. de Wit** (1939), Dutch nationality, is a former chairman of the Executive Board of N.V. Koninklijke KNP BT. He was appointed in 1990 and his current term will end in 2004. He has been a member of the Supervisory Board for fourteen years and will, in compliance with the Dutch Corporate Governance Code, step down as a Supervisory Board member on April 22, 2004. He is also the chairman of the Supervisory Board of PontMeyer N.V. and a member of the Supervisory Board of Océ N.V. He is currently the chairman of the Compensation Committee and a member of the Nominating Committee.

# INSIGHT



AEGON'S EXECUTIVE BOARD AND COUNTRY  
HEADS OF AEGON USA, AEGON THE NETHERLANDS  
AND AEGON UK ADDRESS SOME KEY ISSUES





DON SHEPARD  
CHAIRMAN OF THE  
EXECUTIVE BOARD

### *Making money in a low interest rate environment*

Low interest rates affect our earnings and are a factor for everyone in our industry. Declining interest rates have an effect on our general account fixed income investments, which includes the assets supporting traditional life products. It is important to point out however, that portions of AEGON's business are in fact not dependent on interest rates. For example, earnings on traditional life products, the largest part of our business are, to a certain extent, derived from mortality experience. In addition, our product offering is very broad and includes a wide range of products that is less sensitive to interest rates. We are also well-positioned to meet customer preferences for equity-related products in this low interest rate environment.

There are, of course, management actions that can be taken to reduce the effects of lower interest rates. In the United States, we have taken a number of steps to mitigate the effects of the current low interest environment on our fixed annuity products. Examples include lowering crediting rates to existing policyholders, adjusting commission structures, re-filing with most states to lower the interest guarantee on new products, and eliminating commissions on fixed annuities in states where re-filing was not possible.

Expense management is also important. I believe AEGON is one of the most cost efficient insurance companies in the world, which is even more beneficial in this climate. The current reorganizations in the United Kingdom and the Netherlands, as well as cost reduction initiatives in the United States, are all part of this drive to increase efficiency. We are concentrating our efforts on directing resources to areas that will provide maximum return.

### *The potential for growth in AEGON's mature markets*

The key to achieving growth is distribution. For this reason we have continued the development of our distribution channels through banks in the United States and Spain, as well as brokers in the Netherlands and independent financial advisors in the United Kingdom. Distribution is, and will continue to be, a fundamental aspect of AEGON's strategy.

Another important aspect is scale, which AEGON has achieved. We have leadership positions in each of our chosen markets and we plan to strengthen our presence in these markets over the coming years.

However, increasing market share does not come through distribution and scale alone. Fulfilling our customers' needs in terms of the quality and range of products is essential. Our customers increasingly have multiple insurance needs and we have to ensure that we are able to meet their demands. The ability to deliver this is what distinguishes AEGON from the competition.

### *What do the recent corporate governance developments mean for AEGON's shareholders?*

AEGON's Articles of Incorporation were amended in May of 2003, following approval by our shareholders. The change increased the authority of AEGON's common shareholders and aligned the voting rights of Vereniging AEGON (Association AEGON) with its economic interest. The amendments replace a structure that dates back to a time when AEGON was mainly operating in the Netherlands. We are committed to meeting emerging global best practices in corporate governance and this decision is consistent with that goal.

As I mentioned in my letter to shareholders, the Dutch Corporate Governance Code is also an important development that will raise corporate governance standards for Dutch companies. AEGON already complies with most of the code and we are currently assessing all of its recommendations.

### *Why is corporate responsibility such an important issue for AEGON?*

We recognize that a company's performance and profitability go hand in hand with good business practices. Companies should devote proper consideration of their wider responsibilities to the communities in which they operate. AEGON does so. For any corporate responsibility strategy to succeed, it must start

from the top. AEGON's senior management at both the Executive Board and country unit level are committed to living in accordance with a corporate responsibility code.

Increasingly, companies are judged not only on the quality of their products, services and financial performance, but also on many intangible criteria that fall within the category of corporate responsibility. It is important to us that we continue to meet international expectations and we are proud of our many contributions to the local communities where we operate. Examples of these activities are included in this year's annual report.

#### *The divestiture of Transamerica Finance Corporation*

It has been a long-standing strategy of AEGON to focus on core activities, the business we know best - life insurance, pensions, savings and investment products.

As part of this strategy, we announced in August 2003 the agreement to sell most of Transamerica Finance Corporation's (TFC) commercial lending activities to General Electric. This transaction was successfully completed in January 2004. We also sold Transamerica's real estate tax services and flood hazard certification businesses in October 2003. The TFC companies had a successful year and we wish them well under their new owners.

TFC's businesses owned by AEGON now consist largely of maritime container and European trailer leasing. We will continue to seek the divestiture of the remaining TFC businesses in order to align AEGON's resources with its focused strategy.



JOS STREPPEL  
CFO AND MEMBER OF THE  
EXECUTIVE BOARD

#### *AEGON's policy towards currency hedging*

As it is for any international business with exposure to foreign currencies, currency translation affects AEGON. The majority of AEGON's earnings are generated in non-euro currencies, while the company's reporting currency is the euro. Our policy is quite simple - we do not hedge translation risk. While some form of hedging activity may have tempered the volatility of earnings in recent years, hedging our translated dollar earnings would have cost hundreds of millions of euro and would not have been a prudent use of shareholders' funds. Rather than hedging against translation, we will continue our practice of advising investors about the approximate influence of currency movements on our reported earnings through the sensitivity analysis we perform and report on each year.

For our balance sheet, liabilities in a particular currency are balanced against assets in that same currency. At the same time, all capital leverage debt is pro-rated in the local currencies relative to the invested capital, so changes in currency rates do not affect debt-to-capital ratios.

#### *Discontinuation of the indirect income method*

As announced in the 2002 annual report, starting January 1, 2004, we will no longer use the indirect income method for recognizing gains and losses on our investments in shares and real estate. Since 1995, we have used this method to reflect the long-term nature of our business, by recognizing gains and losses on shares and real estate using a thirty-year average return against the seven-year average portfolio balance. In the international environment that AEGON operates, comparability is critical. For this reason, a new method will be used, which will be in line with what will be required by IFRS and is similar to US GAAP. This new method recognizes gains and losses on equity and real estate investments when realized. While the effect on net income is not determinable, future results are expected to become more volatile. However, we believe the increase in transparency and comparability is important.

### *Looking at AEGON's approach to capital leverage*

We are committed to a strategy that will ensure the continued financial strength of the AEGON Group. This is demonstrated by the AA ratings from Standards & Poor's for our operating companies in our core markets of the United States, the Netherlands, and the United Kingdom. We manage the capital adequacy of our operating units according to regulatory requirements, self-imposed standards, and taking into account local capital adequacy models from Standards & Poor's. Capital adequacy consistent with an AA rating on the local Standard & Poor's models exceed those of the regulatory bodies and other self-imposed requirements in most of the countries in which we operate. For the AEGON Group, we manage leverage within certain tolerance levels: targeting shareholders' equity to exceed a minimum of 70% of total capital, while limiting dated subordinated and senior debt to 25%. Capital securities are managed within a minimum of 5% and a maximum 15% of total capital. In 2003, shareholders' equity and debt were influenced by currency exchange rates, but the equity to total capital base ratio was not materially affected as we manage the debt to be in proportion to the local currency of invested capital in our subsidiaries.

### *Current status on IFRS implementation*

In June 2002, the European Union (EU) endorsed proposals that all exchange-listed companies in the EU should report under International Financial Reporting Standards (IFRS) by 2005. This is a further step forward in increasing transparency and harmonization in financial reporting, which AEGON fully supports. The overall objective of AEGON's conversion from Dutch accounting principles to IFRS is to enable AEGON to prepare a full set of consolidated IFRS financial statements for the 2005 financial year. Conversion teams in each of the business units have project plans in place to ensure that AEGON meets this deadline. This conversion process is controlled and monitored centrally and takes into account the effect of on-going developments in accounting for financial instruments and insurance liabilities.

The opportunity seems obvious and can be summed up in one word: comparability. As we approach IFRS, our main interest is to ensure a level playing field, allowing fair comparison of all companies competing for capital. For the life insurance industry in particular, it is our interest to have a system, which takes into account the long-term nature of life insurance and pension products.

### *AEGON's approach to risk management*

Over the past several years, AEGON has been strengthening its global risk management framework. Capital management has been a central function within AEGON for many years. AEGON has been and will continue to closely align its capital management with the risk management performed by the country units. These efforts continued in 2003, and now allow for a more proactive and coordinated approach to risk and capital management within AEGON, which is demonstrated by the activities of the Group Risk and Capital Committee. Among other things, the committee monitors the risks of the AEGON Group, makes recommendations and oversees remedial action where exposures are deemed excessive.

### *The move to reporting embedded value*

In August 2003, we reported our embedded value for the first time, which also included a comprehensive sensitivity analysis and valuation of our product guarantees, which provided more detail than most of the disclosure that was already in the market. The response from the investment community has been very encouraging. With international financial reporting standards and regulations constantly evolving to higher levels, the move to reporting embedded value is part of our overall commitment to providing high quality disclosure and to increase the transparency of AEGON. AEGON will report on its 2003 embedded value on June 7, 2004.





PAT BAIRD  
PRESIDENT AND  
CEO AEGON AMERICAS

### *Strategy for achieving top-line growth*

Multi-channel distribution is the catalyst that drives revenue growth. In the United States, as part of our strategy, we use a multi-channel distribution network to generate profitable growth within an acceptable risk profile. Strengthening and expanding AEGON's relationships with these distributors is key to this strategy. We look to help our partners grow their businesses through our broad product range and quality service to customers. We also support our revenue drivers through an organizational structure that separates product distribution and manufacturing. This lets sales professionals focus on what they do best – recruiting new distributor relationships, broadening existing relationships and generating sales.

At the same time, our manufacturing centers have maintained high levels of service and reduced operating expenses. Multi-branding is another component of our strategy. In many instances, we offer comparable products to varying distribution channels, using different brand names. With this strategy, we can penetrate certain markets and geographical regions better than we could with a single brand.

### *AEGON Direct Marketing Services – looking at the business and opportunity for growth*

AEGON Direct Marketing Services (ADMS) is an important part of AEGON's business – both in the United States and internationally. With more than 20 million customers, ADMS is one of the largest providers of life insurance, supplemental health and fee-based products through sponsored relationships and other direct-to-consumer initiatives. Most of the customers reached through ADMS are not served by any of our other distribution channels. Our goal is to develop lifetime customers by actively managing customer relationships and working internally to build cross-marketing opportunities.

Less than five years ago, ADMS began exporting its proven business model to a growing overseas market. Using direct mail and telemarketing, ADMS leverages its overseas business partners' brands when selling to its customers. Telemarketing and other business services are typically outsourced locally to maintain a low cost of entry into a new market. ADMS now operates in seven countries in Europe and Asia.

Along with international expansion, ADMS is also responding proactively to regulatory barriers in the United States by opening new market segments in the United States, cross-selling additional products utilizing customer service centers, and expanding their product mix. We believe there will be opportunities to gain market share from competitors who lack the scale and resources to compete successfully in a more regulated US environment.

### *The importance of bank distribution to AEGON USA*

The bank distribution channel is very important to AEGON USA. Our investment here goes back 20 years, where we have been one of the leading fixed annuity providers utilizing relationships with 15 of the largest banks and the majority of the top 50 financial institutions. In 2003, life sales through banks more than doubled. Working closely with our partners, AEGON USA can customize products and support to help banks expand their relationship with their customers.

Today, as banks expand their non-traditional product lines, many prefer to work with a company that can offer a complete range of insurance and investment products. We are one of the few organizations with the experience, wholesaling strength and product depth to accomplish this. Each one of our business units can add value to the banking relationship by providing their own unique financial product solutions. As a single-source solution, we offer banks the benefits of local relationship management, backed by the full resources of the AEGON organization.

### *Agency-sold life sales momentum*

Transamerica Insurance & Investment Group's (TIIG) agency force has been a key contributor to the sales momentum of our agency-sold life business. With more than 100,000 independent agents, TIIG is an established, respected and geographically dispersed marketing organization. Our product depth and

commitment to service have been instrumental in the growth of the business. Over the past few years, we have doubled the number of producers in our independent producer channel.

Pension Group deposits continue their growth, driven primarily by sales in the mid-to-large plan market. The Pension Group has gained considerable advantage by investing in its technological infrastructure to meet the growing complexity of the business and increased sponsor demands. As a result, plan processing and administrative functions are handled more efficiently, while participants benefit from improved capabilities to assess their account information and retirement planning via the web.

Sales have also been encouraging in the fast-growing small-plan market where products are distributed through independent producers and professional organizations as well as leading banks and brokerage firms. The Pension Group has been successful in company-wide cross-marketing initiatives.



JOHAN VAN DER WERF  
MEMBER OF THE  
EXECUTIVE BOARD AND  
CEO AEGON THE NETHERLANDS

#### *Restructuring AEGON The Netherlands*

In an environment of increasing competition, regulation and cost of distribution, there has become a stronger need for greater quality and efficiency throughout our business in the Netherlands. Going forward, it is vital that we structure ourselves in a way that enables the business to grow profitably and to fulfill the ever changing and increasing needs of our customers, in all the markets in which we operate. Subsequently, a number of necessary steps have been taken to restructure the business. The new AEGON The Netherlands will be a business that can deal with dynamics and developments in the market more efficiently than under the previous structure. The thirteen business units, which had been operating as independent businesses from various sites throughout the country, are making way for five service centers and four marketing and sales organizations, at

only three locations. This new structure not only provides for benefits of scale and a higher level of quality due to centralization and standardization of processes in the production environment, it also gives focus to the marketing and sales organizations and allows them to develop products tailored to customer needs more efficiently. The new structure helps to build close and strong relationships with the distributors, enabling us to better and more quickly understand the changing needs of our current and potential customers. AEGON The Netherlands is on the move, towards an organization where the customer, again, is the motive power of our business.

While the restructuring will result in staff reductions, it is important to emphasize that this will be achieved through attrition rather than through compulsory redundancies.

#### *Product strategy for the Netherlands life market*

AEGON is the second largest life insurer in the Netherlands, with a strong position in individual, group life and pension businesses. Our product offering also includes accident and health, general insurance and savings accounts. AEGON The Netherlands targets many customer segments through a sophisticated multi-channel distribution network. We recognize that in today's world, customers – whether individual, corporate or institutional – demand high quality tailor-made products delivered with excellent service. The steady gain in market share in the group pension business, the largest part of our activities in the Netherlands, demonstrates this.

We have improved the transparency of our products and services, anticipating forthcoming legal and regulatory changes in the financial services industry in the Netherlands. That is what customers expect from AEGON.

Looking forward, there are significant long-term growth opportunities in our existing core markets. For example, in the group pension market where we offer products and services in asset management, liability risk management and pension administration, bundled or unbundled, and also in the individual pension and income markets.

### *Strategy for achieving top-line growth*

In a challenging market for life insurance and pension products, AEGON The Netherlands is confident of its ability to grow its business in the long term, and expects to gain market share in some areas. High quality value-added products and services, supported by a low level of operating costs provide us with a healthy competitive position. While our existing customers already form a good basis from which to grow, we are extending our customer reach by adding distribution and database capabilities and building stronger relationships with intermediaries. As we have done in the past, we continue to focus on market or product segments we believe will provide opportunities for profitable growth in the future.



DAVID HENDERSON  
GROUP CHIEF EXECUTIVE  
AEGON UK

### *AEGON UK's strategy for long-term growth*

When AEGON acquired Scottish Equitable in 1994, we came in believing that the United Kingdom offered substantial long-term growth potential. Today, our opinion has not changed and AEGON UK is wholly committed to the development of its business. The United Kingdom is one of the largest savings markets in which AEGON operates. However, recent regulatory changes, including price capping of certain products, coupled with the presence of a high exposure to equities in many product areas, has presented significant challenges to the life industry. Our strategy is to create a core of quality financial products and services and to strengthen further our position as one of the leading companies in the industry. A key aspect of our strategy is to expand our product range, while building strong relationships with our distribution partners.

### *Internal reorganization of AEGON UK*

In October 2003, we announced a new structure for AEGON UK, which is an important development in the continued enhancement of our services and of the lowering of our cost levels. The new structure included the creation of AEGON UK Life and Pensions, and this new unit has brought together Scottish Equitable, Scottish Equitable International, AEGON Individual Protection and AEGON UK Services into one organization.

AEGON UK has made significant investments in the development of new technology platforms. This has made our processing more cost effective and reduced significantly our 'time to market' for product and service enhancements. In addition, it has allowed us to step up our delivery in the important area of e-commerce, particularly in the corporate pensions market. For example, corporate customers are now able to benefit from SmartScheme, an online solution, which makes managing a group pension scheme less time consuming and more cost effective for employers than ever before.

### *Asset management in AEGON UK*

With over GBP 30 billion of assets under management, our in-house investment manager, AEGON Asset Management UK, is one of the UK's leading providers of institutional and retail fund services.

We have developed a market-leading 'open architecture' approach for our life and pension products, which include access at a competitive cost to ten carefully selected external fund managers, our investment partners. Market developments mean we are more committed than ever to advancing the development of this approach.

Providing a genuine choice of internal and external asset management capabilities means that we can offer investment solutions tailored to suit anyone from the most cautious investor to the most ambitious.

### *AEGON's expansion into the IFA market*

Independent financial advisors (IFAs) have long been the primary channel through which we have provided our pension and life products. We remain committed to the advice-based sales channel and we are confident that depolarization will reaffirm the position of that channel. One of our key aims is to establish

strong partnerships with IFAs, ensuring that both parties' ability to deliver value-adding financial planning solutions is continually developed. The regulatory changes have provided an opportunity to build our own distribution capability in a highly fragmented market. AEGON UK has invested in the ownership of distributors and as a result of these transactions we are now one of the largest distribution organizations in the United Kingdom. Further consolidation in the market will continue and we believe that AEGON UK Distribution is well placed to benefit from such developments.



ALEX WYNAENDTS  
MEMBER OF THE  
EXECUTIVE BOARD

*Business development: leveraging existing knowledge and skills*

AEGON's strategy is to focus on profitable growth. We are confident that there are many ways in which AEGON can successfully leverage its broad knowledge and skills in markets where we already have major operations, such as in the United States and in Europe, and also in developing and emerging countries in Asia as well as in Central and Eastern Europe.

AEGON opened operations in Taiwan in 1994 as a start-up and it has formed the blueprint for AEGON's approach to start-ups. It started from a small base but AEGON Taiwan is now experiencing significant growth. Under the direction of an experienced local management team, the successful execution of a multi-channel distribution strategy has been the key driver of our growth in Taiwan. This includes traditional agents, bancassurance and brokers through which we have gained a significant market share. Bancassurance, which currently contributes about 50% of production, is a relatively new and fast-moving distribution channel in Taiwan. We have been able to establish partnerships with sixteen banks operating in the country.

AEGON entered the Hungarian market in 1992 and we now have a top two position with a significant share of the country's life market. Hungary is a key market in Central Europe and provides AEGON with a strong platform for expanding into other selected countries in the region, acting as a regional support for new greenfield operations. In September 2003, we established a greenfield in Slovakia and initial sales results are encouraging. With a number of Central and Eastern European countries set to join the European Union in May 2004, we expect to see further favorable developments.

In April 2003 we started life operations in the fast-growing life insurance market of mainland China through the joint venture with the Chinese National Offshore Oil Corporation (CNOOC). Our strategy is to leverage the group's skills by developing a multi-channel distribution capability to achieve accelerated growth.

Also, our expertise and high professional standards in pensions, especially group pensions, make us well positioned to benefit from developments in the pension market in Europe. Most of the larger continental European countries still have a pay-as-you-go pension system, which is becoming an increasingly unsustainable burden on the finances of these countries. The governments of these countries are recognizing the magnitude of the emerging pension burden and are demonstrating the courage to implement fundamental reforms, which will lead to a much larger participation of the private sector in developing pension activities. We remain committed to taking advantage of the opportunities that these major European markets represent.

*Expansion of our distribution partnerships: the example of Spain*

We see attractive opportunities in developing new distribution channels in existing markets. A good example of this is the joint venture with Caja de Ahorros del Mediterráneo (CAM), as announced in November 2003.

The partnership with CAM creates a joint venture, which we expect to become one of the key players in the Spanish life insurance and pensions market. It provides AEGON with exclusive use of CAM's banking network of over 850 branches to sell life insurance and is a major step in strengthening our distribution in Spain. The Spanish life insurance market is the fifth largest market in Europe. Banks have proven to be the preferred intermediary by Spanish customers and have been a major contributor to the recent growth of the market. The partnership with CAM will prove to be a considerable driver for the profitable growth in Spain and complements our existing Spanish franchise.



# REVIEW OF OPERATIONS

A COMPREHENSIVE ACCOUNT OF AEGON'S  
PERFORMANCE DURING 2003

## REVIEW OF OPERATIONS

### RESULTS OF OPERATIONS

	2003 in million EUR	2002 in million EUR	%
<b>INCOME BY PRODUCT SEGMENT</b>			
Traditional life	1,218	1,457	(16)
Fixed annuities	334	174	92
GICs and funding agreements	213	272	(22)
Life for account of policyholders	378	371	2
Variable annuities	63	(462)	
Fee business	6	2	
<b>LIFE INSURANCE</b>	<b>2,212</b>	<b>1,814</b>	<b>22</b>
Accident and health insurance	283	278	2
General insurance	61	62	(2)
<b>TOTAL INSURANCE ACTIVITIES</b>	<b>2,556</b>	<b>2,154</b>	<b>19</b>
Banking activities	20	8	150
Interest charges and other	(429)	(313)	37
Income before tax	2,147	1,849	16
Corporation tax	(572)	(353)	62
Transamerica Finance Corporation	218	51	
<b>NET INCOME</b>	<b>1,793</b>	<b>1,547</b>	<b>16</b>
<b>INCOME GEOGRAPHICALLY</b>			
Americas	1,538	1,206	28
The Netherlands	771	659	17
United Kingdom	188	233	(19)
Other Countries	79	64	23
Income before tax business units	2,576	2,162	19
Interest charges and other	(429)	(313)	37
Income before tax	2,147	1,849	16
Corporation tax	(572)	(353)	62
Transamerica Finance Corporation	218	51	
<b>NET INCOME</b>	<b>1,793</b>	<b>1,547</b>	<b>16</b>

	Americas in million EUR	The Netherlands in million EUR	United Kingdom in million EUR	Other Countries in million EUR	Total in million EUR
<b>2003</b>					
Total life insurance gross premiums	6,157	3,247	5,974	831	16,209
Accident and health insurance premiums	2,217	163	–	83	2,463
General insurance premiums	–	459	–	337	796
Total gross premiums	8,374	3,869	5,974	1,251	19,468
Investment income insurance activities	5,618	1,465	137	132	7,352
Fees and commissions	854	265	90	12	1,221
Income from banking activities	–	354	–	–	354
Total revenues business units	14,846	5,953	6,201	1,395	28,395
Income from other activities	–	–	–	–	34
Total revenues	–	–	–	–	28,429
Number of employees, including agent-employees	14,308	6,034	4,864	2,502	27,708



## RESULTS

**Full year net income of EUR 1,793 million increased 16% compared to EUR 1,547 million in 2002. The largest influences on full year results were improved equity and credit markets as well as improved administrative operating efficiencies.**

Exchange rate translation negatively impacted the earnings reported in euro, which is the currency of the financial statements. At constant currency exchange rates net income and income before tax increased by 30% and 29% respectively in 2003.

Earnings per share for the full year amounted to EUR 1.15, an increase of 11% compared to EUR 1.04 for last year (adjusted for the 2002 stock dividend).

Standardized life production increased by 3% to EUR 2,545 million, which at constant currency exchange rates would have increased by 15%. The increase in standardized life production was driven by higher production in the Americas, the United Kingdom and Other Countries, in particular in Taiwan, partly offset by lower production in the Netherlands.

During 2003, indirect income of EUR 631 million pre-tax was included in earnings, compared to EUR 758 million pre-tax in 2002. As announced earlier, effective January 1, 2004, AEGON discontinued the indirect income method for recognizing gains and losses on investments in shares and real estate. A generally accepted and recognized method has been adopted, which is in accordance with International Financial Reporting Standards (IFRS) requirements and is similar to US GAAP. This method recognizes gains and losses on shares and real estate investments when realized.

Transamerica Finance Corporation (TFC), most of which was sold in line with our strategy to concentrate on life insurance, pensions, savings and investment products, contributed EUR 218 million to net income during 2003 compared to EUR 51 million in 2002.

The effective tax rate for 2003 was 27% compared to 19% in 2002. The lower effective tax rate in 2002 was largely due to a reduction of the deferred tax liability and favorable adjustments resulting from the filing of the 2001 corporate tax returns in the United States, lower taxable income relative to preferred investments and tax-exempt income in the Netherlands and the United States, and the use of tax losses in the United Kingdom.

The following selected financial data should be read in conjunction with AEGON's consolidated financial statements and the related notes to the financial statements of this annual report. The discussion of AEGON's full year results for 2003 includes comparative information presented in USD for the results in the Americas and in GBP for the results in the United Kingdom, which management believes is useful to investors because those businesses operate and are managed primarily in those currencies.

## AMERICAS (INCLUDES AEGON USA AND AEGON CANADA)

INCOME BY PRODUCT SEGMENT	2003 in million USD	2002 in million USD	%	2003 in million EUR	2002 in million EUR	%
Traditional life	724	813	(11)	640	859	(25)
Fixed annuities	378	165	129	334	174	92
GICs and funding agreements	241	257	(6)	213	272	(22)
Life for account of policyholders	82	106	(23)	73	112	(35)
Variable annuities	71	(437)		63	(462)	-
Fee business	(19)	5		(17)	5	-
<b>LIFE INSURANCE</b>	<b>1,477</b>	<b>909</b>	<b>62</b>	<b>1,306</b>	<b>960</b>	<b>36</b>
Accident and health insurance	263	233	13	232	246	(6)
<b>INCOME BEFORE TAX</b>	<b>1,740</b>	<b>1,142</b>	<b>52</b>	<b>1,538</b>	<b>1,206</b>	<b>28</b>
Corporation tax	(501)	(226)	122	(443)	(239)	85
<b>NET INCOME</b>	<b>1,239</b>	<b>916</b>	<b>35</b>	<b>1,095</b>	<b>967</b>	<b>13</b>

### INCOME BEFORE TAX

Income before tax of USD 1,740 million increased USD 598 million or 52%, compared to 2002, primarily due to lower additions to the asset default provision (USD 258 million), lower accelerated amortization of deferred policy acquisition costs (DPAC) for variable annuities (USD 314 million) and lower additions to the provisions for guaranteed minimum benefits (GMBs) (USD 243 million). Income before tax also reflects the following one-time positive items: a non-recurring property insurance settlement benefit of USD 54 million, a provision release of USD 36 million relating to real estate and interest on a tax refund for an amount of USD 34 million. Partially offsetting the income increases were lower employee pension plan income (USD 90 million), lower indirect investment income from shares and real estate investments (USD 135 million) and lower investment yields (USD 91 million) on the general account fixed income investments.

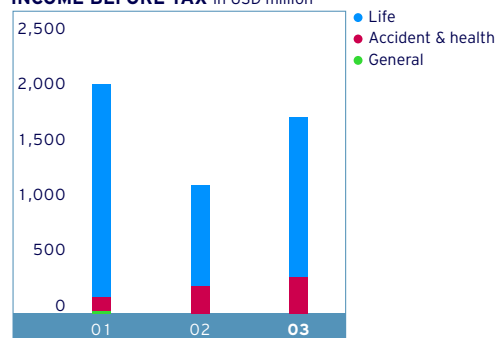
Traditional life income before tax of USD 724 million in 2003 was 11% lower than in 2002, reflecting lower investment yields on fixed income investments, less indirect investment income and a reduction in employee pension plan income. The one-time property insurance settlement benefit and a provision release described above partially offset these negative results.

Fixed annuity income before tax of USD 378 million increased 129% compared to 2002. The favorable impact of lower credit losses in 2003 was partly offset by the decline in indirect investment income and lower product spreads compared to 2002. Crediting rates were lowered on both existing and new deposits throughout 2003 to improve product spreads. Fixed annuity account balances increased 7% to USD 45 billion during 2003 due to new sales and additional deposits on existing contracts.

GICs and funding agreements income before tax declined 6% to USD 241 million, due to lower indirect investment income (lower by USD 29 million) and interest rate spread compression. Lower additions to the default provision resulted

## REVIEW OF OPERATIONS

**INCOME BEFORE TAX** in USD million



from the improved credit environment and partially offset the earnings decline. GICs and funding agreements account balances increased 5% to USD 27 billion and reflect higher sales of international funding agreements.

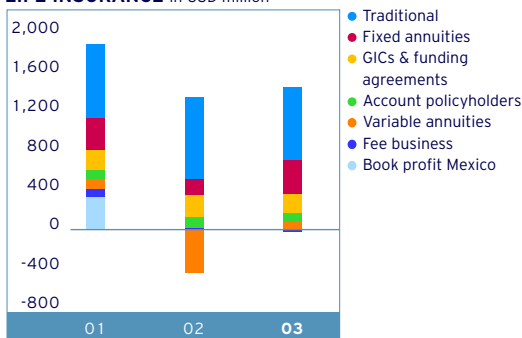
Life for account of policyholders income before tax decreased 23% to USD 82 million. Higher lapses and slightly higher mortality resulted in accelerated DPAC amortization.

Income before tax in AEGON's variable annuity line of business increased from a loss of USD 437 million in 2002 to a positive amount of USD 71 million in 2003 and account balances increased 30% to USD 42 billion since December 31, 2002. The 2002 variable annuity results were negatively impacted by USD 602 million of accelerated DPAC amortization and strengthening of the GMB provision that occurred as a result of the continued decline in the equity markets. The improvement in 2003 was slightly offset by accelerated DPAC amortization, due to higher lapses (USD 35 million).

AEGON maintained its long-term equity growth assumptions at 9% in the United States and 9.5% in Canada. Due to strong equity market growth during 2003, the short-term equity return assumptions, used in the reversion to the mean methodology, were lowered. In the United States, forward-looking equity return assumption from December 31, 2003, is 7.5% (before fees) for five years followed by 9% for the long term and is related to account balances of USD 30.6 billion. In Canada, the comparable assumption is 10.75% for five years, followed by 9.5% for the long term, which reflects the relatively weak recent performance of the Canadian segregated fund returns compared to average US-based returns. The comparable 2002 assumptions for the United States were 12% for five years and 9% for the long term and for Canada 12.5% for five years and 9.5% for the long term. Account balances in Canada are USD 2.9 billion. These assumptions were used in determining reserves for guaranteed benefits on variable annuities in addition to DPAC amortization for both variable annuity and life for account of policyholders product lines.

Fee business reported a loss before tax of USD 19 million compared to an income of USD 5 million in 2002. The loss was a result of higher expenses, due to increased vesting in a long-term formula-based deferred compensation plan, which reflects growth in assets under management. Strong synthetic GIC and mutual fund sales, along with favorable equity market performance had a positive earnings impact.

**INCOME BEFORE TAX  
LIFE INSURANCE** in USD million



Accident and health income before tax increased 13% to USD 263 million, primarily due to improved claim experience and more effective expense containment. Rate increases in certain health products improved overall profitability.

### NET INCOME

Net income of USD 1,239 million increased 35% compared to 2002. The effective tax rate increased from 20% in 2002 to 29% in 2003. The 2003 tax rate, though higher than 2002, reflected the release of the USD 85 million valuation allowance for loss carryforwards, partially offset by the establishment of an additional provision. In 2002, the tax expense reflected a reduction of the deferred tax liability of USD 219 million for a change in estimate as additional information and refinements of prior year deferred tax liability became available during 2002. This was partially offset in 2002 by the establishment of an additional provision of USD 129 million, including a valuation allowance of USD 85 million for loss carryforwards.

### REVENUES

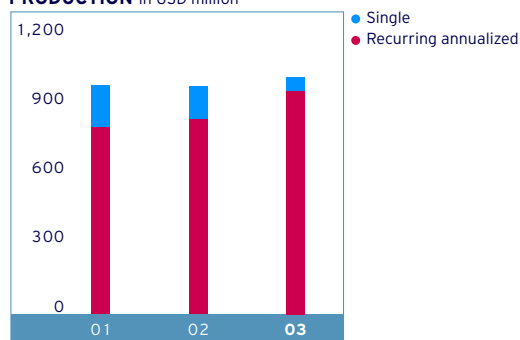
Revenues of USD 16,792 million increased 2% compared to 2002. Life insurance gross premiums of USD 6,964 million increased 2%, accident and health insurance premiums of USD 2,508 million increased 2%, investment income of USD 6,354 million slightly increased compared to last year, while fees and commissions of USD 966 million increased 16%.

Life general account single premiums of USD 916 million decreased 3% in 2003, reflecting the negative effect of discontinuing new sales of structured settlement products in July 2003, offset by strong growth in remaining general account sales. The growth in remaining general account sales resulted primarily from higher production in the agency and bank channels.

Life for account of policyholders single premiums of USD 522 million were down 34%, primarily due to the low sales of bank-owned life insurance (BOLI) and corporate-owned life insurance (COLI) business in 2003. These sales usually occur in larger amounts and contract sales are not as regular as other life products. In the continuing current low interest rate environment product pricing has been under pressure, which contributed to the declining sales. Life for account of policyholders recurring premiums of USD 779 million were up 23%, largely driven by renewal premiums of BOLI/COLI cases and also higher fees due to increases in account balances.



## STANDARDIZED NEW PREMIUM PRODUCTION in USD million



Accident and health premiums were only slightly higher than in 2002 as it was decided in 2003 to exit certain supplemental insurance products. Telemarketing sales declined as a result of new telemarketing regulations, including the national 'Do not call' list. Offsetting this decline were higher sales through sponsored programs along with rate increases on certain health products. The direct business model continues to evolve to reach targeted customers.

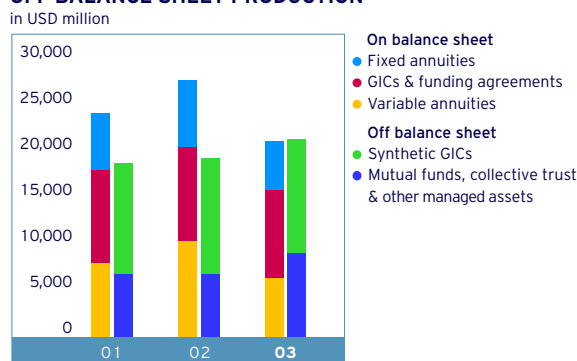
Investment income of USD 6,354 million was slightly higher than last year. Portfolio growth due to general account sales and low lapses was offset by lower indirect investment income, declining interest rates and lost income on defaulted assets. The indirect investment income from shares and real estate investments decreased by USD 135 million in 2003 compared to 2002. New money flows in the portfolio, combined with reinvestments from bond maturities at lower interest rates, drove the fixed rate asset yield lower. Floating rate asset yields have also declined, but since these are matched with floating rate liabilities, there is no effect on income. Interest rate related gains on bonds sold of USD 1,141 million for the year were deferred and are not reflected in 2003 revenues.

Fees and commission revenues of USD 966 million increased 16% compared to last year. A non-recurring gain of USD 90 million was realized on real estate investments through the combination of an insurance settlement (USD 54 million) and the release of a provision (USD 36 million). The remaining increase in fees and commission revenues is primarily attributable to increased investment management fees earned as a result of higher asset balances.

## COMMISSIONS AND EXPENSES

Commissions and expenses of USD 3,897 million increased 10% compared to 2002. Commissions declined in 2003 compared to 2002, as a result of lower annuity production and commission restructuring efforts. However, net DPAC amortization increased, due to business growth and lower capitalization. Operating expenses of USD 1,764 million, which exclude DPAC amortization and total commissions, increased USD 90 million, due to less employee pension plan income, USD 27 million, due to a coinsurance option that expired unexercised, USD 35 million, reflecting the accruals for a deferred compensation plan and USD 24 million, reflecting expenses related to a block of in force business acquired from Mutual of New York on December 31, 2002.

## TOTAL DEPOSITS/OFF BALANCE SHEET PRODUCTION in USD million



## PRODUCTION

Life production (standardized new premium) increased 9% to USD 1,076 million, reflecting strong growth in general account sales, partially offset by the negative effect of discontinuing new sales of structured settlement products in July 2003. The Agency Group achieved strong sales of traditional, universal and term life products, through the combined efforts of existing distribution channels and new relationships.

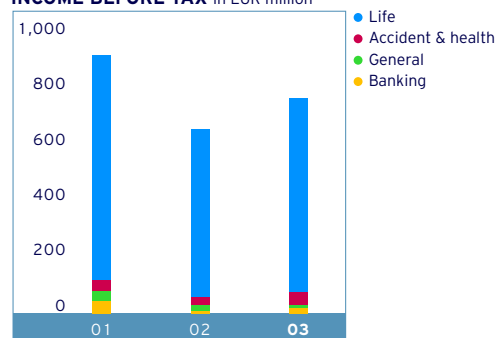
Deposits into fixed and variable annuity contracts and institutional spread-based products (GICs and funding agreements) were recorded directly to the balance sheet as a deposit liability and not reported in revenues. Fixed annuity deposits of USD 5.2 billion decreased 27% compared to 2002. Fixed annuity sales declined due to lower policyholder crediting rates and the reduction of commission rates. Withdrawals from existing contracts continued to be at their lowest levels in years, reflecting the lower new money interest rates available on new policies. In response to the low interest rate environment, AEGON USA introduced during 2003 new products with a lower guaranteed annual interest rate. GICs and funding agreement production was down 4% compared to 2002, primarily due to disciplined pricing to achieve returns.

Variable annuity deposits of USD 6.4 billion decreased 36% compared to 2002. The decrease is largely due to the discontinuance of the guaranteed minimum income benefit (GMIB) feature. 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 feature.

Off balance sheet products include managed assets such as mutual funds, collective investment trusts and synthetic GICs. Off balance sheet production was USD 21.5 billion, a 14% increase compared to 2002. Mutual fund sales of USD 8.3 billion increased 25%, reflecting the expanded marketing relationships with wirehouse networks. Synthetic GIC sales of USD 13.2 billion increased 9% compared to last year. AEGON USA does not manage the assets underlying a synthetic GIC and is not subject to the investment risk, but receives a fee for providing liquidity to benefit plan sponsors in the event that qualified plan benefit requests exceed plan cash flows.

## REVIEW OF OPERATIONS

**INCOME BEFORE TAX** in EUR million



### THE NETHERLANDS

#### INCOME BY PRODUCT SEGMENT

	2003 in million EUR	2002 in million EUR	%
Traditional life	548	552	(1)
Life for account of policyholders	135	49	176
Fee business	13	0	–
<b>LIFE INSURANCE</b>	<b>696</b>	<b>601</b>	<b>16</b>
Accident and health insurance	44	26	69
General insurance	11	24	(54)
<b>TOTAL INSURANCE ACTIVITIES</b>	<b>751</b>	<b>651</b>	<b>15</b>
Banking activities	20	8	150
<b>INCOME BEFORE TAX</b>	<b>771</b>	<b>659</b>	<b>17</b>
Corporation tax	(179)	(136)	32
<b>NET INCOME</b>	<b>592</b>	<b>523</b>	<b>13</b>

#### INCOME BEFORE TAX

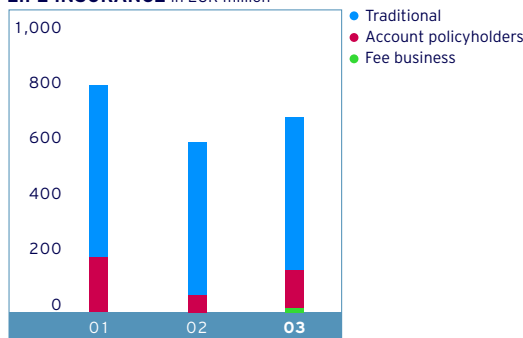
Income before tax for traditional life of EUR 548 million was 1% below 2002. Results were positively influenced by EUR 20 million of higher direct investment income, as well as EUR 47 million of higher indirect income and a EUR 40 million release of a provision for profit sharing. The lower results were mainly due to a change in the assumptions for mortality and longevity, which had a negative impact of EUR 93 million. Furthermore, lower expense loadings (EUR 20 million), due to lower production and higher expenses due to increased employee pension related costs, had a negative impact on income before tax.

Commissions and expenses include both in 2002 and 2003 accelerated amortization of DPAC due to high lapse rates resulting from a change in the law relating to tax driven savings products.

Income before tax in the life for account of policyholders business amounted to EUR 135 million, 176% above 2002. This increase is mainly due to EUR 116 million lower additions to the provision for guarantees.

Fee business consists of the 2003 results of the distribution units Meeüs Groep, Elan and Spaaradvies. The distribution units are consolidated into the AEGON The Netherlands figures as from January 1, 2003.

**INCOME BEFORE TAX**  
**LIFE INSURANCE** in EUR million



Income before tax from accident and health insurance increased by 69% to EUR 44 million. The favorable claims experience in the 'absence due to illness' portfolio had an effect of EUR 16 million and the positive run-off result of a reinsurance contract had a positive effect of EUR 9 million. Income was negatively affected by an amount of EUR 5 million, due to a change in the allocation of the investment portfolio and for an amount of EUR 4 million, due to higher pension expenses.

General insurance income before tax was 54% below the 2002 level. Additional provisions were set up in the legal liability motor branch and the general liability branche for an amount of EUR 9 million and EUR 10 million respectively. In addition to this, EUR 5 million lower interest income and EUR 2 million higher expenses impacted the results negatively. These effects were partly offset by positive run-off results of a reinsurance contract (EUR 3 million) and the increase of technical results in the fire branch (EUR 11 million).

Income before tax from banking activities increased EUR 12 million to EUR 20 million, mainly as a result of lower provisions for credit risks (EUR 20 million) and higher expenses (EUR 7 million).

#### NET INCOME

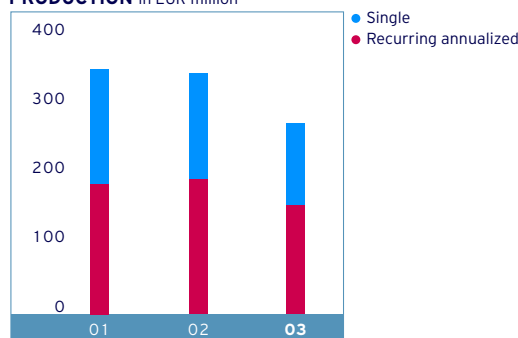
The increase in the effective tax rate from 21% to 23% was mainly due to the consolidation of the distribution units, leading to a 13% increase in net income, whereas income before tax increased by 17%.

#### REVENUES

Revenues of EUR 5,953 million recorded in 2003 were slightly lower than in 2002. Premium income in the life insurance business was EUR 326 million lower, mainly because single premiums decreased by 24% from 2002. This was due to a lower level of business in group pensions.

Recurring premiums remained relatively stable, with higher premiums from the existing portfolio but also higher lapses of policies due to a change in law affecting tax driven savings products. Premium income in the accident and health and general insurance business showed increases of 1% and 3% respectively from 2002. This was due to the increase in premiums for a broad range of non-life products, as realized at the end of 2002 to cover increasing claims. This increase is

### STANDARDIZED NEW PREMIUM PRODUCTION in EUR million



partly offset by the effect from the sale of the glasshouse portfolio and part of the recreational boating portfolio, which had a negative effect on premium income of EUR 5 million. Investment income rose by EUR 68 million, mainly from the increase in indirect income. Fees and commissions include EUR 214 million of revenues relating to the distribution units and EUR 21 million of revenues relating to TKP Pensioen.

Revenues out of banking activities decreased by EUR 62 million, or 15%, over 2002 to EUR 354 million, mainly caused by lower investments backing the savings accounts. Investment income for account of policyholders represented the change in market value in 2003 of the investments for account of policyholders.

### COMMISSIONS AND EXPENSES

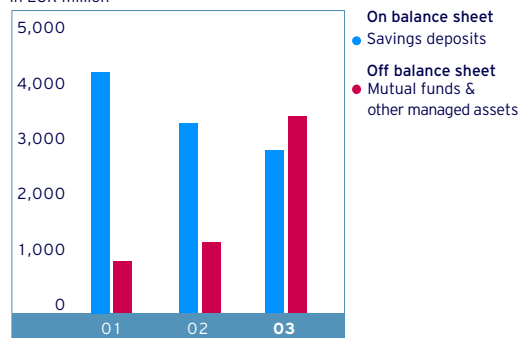
Commissions and expenses amounted to EUR 956 million, a 44% increase from 2002. Expenses increased by EUR 202 million, due to the consolidation of the distribution units, EUR 14 million, reflecting the acquisition of TKP Pensioen and EUR 64 million from higher premiums related to the AEGON The Netherlands pension scheme. Commissions were higher due to a shift in the individual life business from recurring to single premium. Commission paid on single premium production is not deferrable and is consequently immediately recognized in the income statement.

### PRODUCTION

Overall life production was 21% (EUR 73 million) lower than in 2002, as a result of continued volatility in sales of group pension business. The business unit AEGON Corporate Pensions, in the market of small and medium-sized companies, performed well with an increase in standardized production of 18% (EUR 9 million). In other life insurance, single production went up 15% (on a standardized basis EUR 6 million), while recurring production decreased by 13% (EUR 13 million).

For non-life, net production (new production adjusted for lapses) was slightly negative. This was caused by the divestiture of the glasshouse portfolio and part of the recreational boating portfolio. The change in the contracts to include the terrorism clause in the third quarter of 2003 led to lapses, but also to new policies, with a small positive impact overall. Change in legislation regarding, absence due to illness, policies will probably lead to a revival of the accident and health insurance market.

### TOTAL DEPOSITS/OFF BALANCE SHEET PRODUCTION in EUR million



AEGON Asset Management attracted EUR 3 billion of asset-only (funds under management) contracts in a competitive market. Part of this, EUR 1 billion, was from a large account that switched from an insurance contract into an asset-only contract.

Securities lease products were a high profile issue in the Netherlands in 2003. AEGON The Netherlands ceased selling securities lease products completely in early 2003. This decision had a significant impact on production, with a decrease from EUR 393 million in 2002 to EUR 13 million in 2003. The existing portfolio is very diverse. Since most of AEGON The Netherlands's customers bought products with guarantees attached to them or with redemption schemes on a long duration, the effects of volatile equity markets on the short term are limited. AEGON has set up a provision for losses resulting from AEGON not being able to recover in full the loans granted in the context of securities lease products.

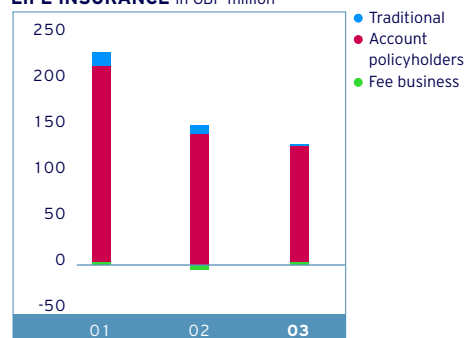
Savings account balances decreased 11% from December 31, 2002, to a total of EUR 5.7 billion at December 31, 2003, primarily resulting from price competition for savings account assets.

Assets under management increased by EUR 11 billion to EUR 53 billion in 2003, mainly due to a net increase in asset-only contracts (EUR 2 billion), the acquisition of TKP Pensioen (EUR 7 billion) and a EUR 1 billion increase in the investments for account of policyholders. The increase in the investments for account of policyholders was mainly due to favorable investment returns on the equity and fixed income portfolios.

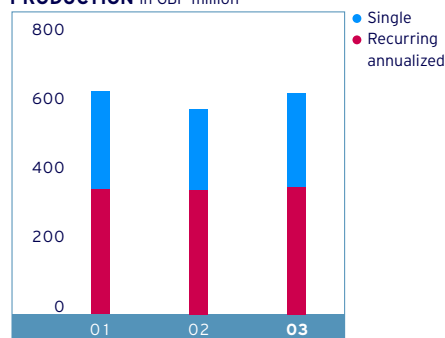
During 2003, part of the mortgage portfolio was securitized. At December 31, 2003, the total of mortgage backed security programs amounted to EUR 5 billion.

## REVIEW OF OPERATIONS

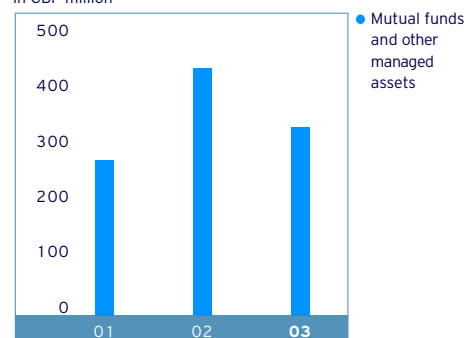
### INCOME BEFORE TAX LIFE INSURANCE in GBP million



### STANDARDIZED NEW PREMIUM PRODUCTION in GBP million



### OFF BALANCE SHEET PRODUCTION in GBP million



## UNITED KINGDOM

INCOME BY PRODUCT SEGMENT	2003 in million GBP	2002 in million GBP	%	2003 in million EUR	2002 in million EUR	%
Traditional life	1	12	(92)	2	19	(89)
Life for account of policyholders	128	140	(9)	184	224	(18)
Fee business	1	(6)	117	2	(10)	120
INCOME BEFORE TAX	130	146	(11)	188	233	(19)
Corporation tax	(37)	(34)	9	(53)	(55)	(4)
<b>NET INCOME</b>	<b>93</b>	<b>112</b>	<b>(17)</b>	<b>135</b>	<b>178</b>	<b>(24)</b>

### INCOME BEFORE TAX

Income before tax of GBP 130 million in 2003 decreased 11% compared to 2002. The main reason for the decrease was lower policy fee income, reflecting an average 12% lower FTSE level in 2003 compared to 2002.

Income before tax in the traditional life product segment was GBP 1 million in 2003, a decline of GBP 11 million compared to 2002. This decline resulted primarily from a reduction in mortality profits on general account business, due to a release of reserves from certain closed blocks of business in 2002 and a number of one-time items in 2002.

Income before tax in the life for account of policyholders product segment was GBP 128 million for 2003, a decline of 9% compared to 2002. The profitability of this product segment is heavily dependent on the level of the equity markets, as the main source of income is charges on linked business. The lower average FTSE level during 2003 compared to 2002 therefore had a negative effect on earnings.

During 2003, AEGON UK acquired further stakes in distribution companies. The overall increase in income before tax in the fee business segment was primarily due to lower expenses in the asset management business and profitable growth in the distribution companies.

### NET INCOME

Net income for 2003 of GBP 93 million declined 17% compared to 2002. Contributing to this decline was an increase in the effective tax rate to 28% from 23% in 2002, due to the utilization of tax losses as a result of a settlement with the UK Inland Revenue in the fourth quarter of 2002.

## REVENUES

Revenues of GBP 4,284 million increased 3% from 2002, primarily due to a GBP 39 million increase in single premiums from life for account of policyholders products. The increase in non-premium revenues was due to the inclusion of the newly acquired distribution companies.

## COMMISSION AND EXPENSES

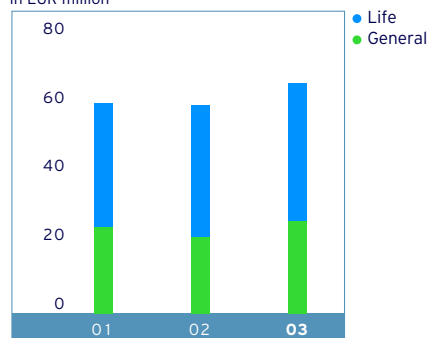
Commission and expenses increased to GBP 442 million, up GBP 128 million, due to the inclusion of operating costs of the acquired distribution companies (GBP 40 million), growth in protection businesses (GBP 20 million), the recommencement of contributions to the staff pension scheme (GBP 7 million), higher DPAC amortization (GBP 63 million), increased amortization charges on IT project costs (GBP 24 million), partly offset by lower restructuring charges (GBP 7 million) and expense reduction (GBP 18 million). The restructuring charges resulted from a cost reduction review in 2002 and 2003 and a broader review of all of AEGON UK's operations which commenced in 2003 and will continue in 2004. The charges arose from the costs of redundancies and the provision for vacant property as a result of the rationalization of accommodation.

The increase in DPAC amortization and depreciation charges on the IT project above, were largely offset by a change in the technical provision for unitized business.

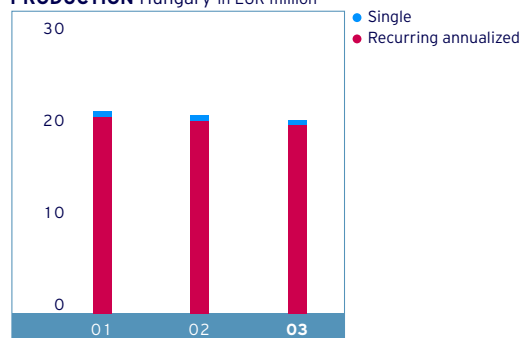
## PRODUCTION

The increase in production of 8% reflects growth in each of AEGON UK's core business lines. Production of pension business was satisfactory, while investor sentiment regarding equity products impacted the retirement planning and investment-only products.

#### INCOME BEFORE TAX Hungary in EUR million



#### STANDARDIZED NEW PREMIUM PRODUCTION Hungary in EUR million



### OTHER COUNTRIES

INCOME BY PRODUCT SEGMENT	2003 in million EUR	2002 in million EUR	%
Traditional life	28	27	4
Life for account of policyholders	(14)	(14)	0
Fee business	8	7	14
LIFE INSURANCE	22	20	10
Accident and health insurance	7	6	17
General insurance	50	38	32
INCOME BEFORE TAX	79	64	23
Corporation tax	(21)	(12)	75
<b>NET INCOME</b>	<b>58</b>	<b>52</b>	<b>12</b>

Weighted average exchange rates for currencies of the countries included in the Other Countries segment, and which do not report in euro, are summarized in the table below.

	2003	2002
Hungarian Forint (HUF)	253	243
New Taiwan Dollar (NTD)	39	33
Slovakian Koruna (SKK)	41	–
Rin Min Bi Yuan (CNY)	10	8

Please note that the Other Countries segment is accounted for in our financial statements in euro, but the operating results for the individual country units within Other Countries are accounted for, and discussed below, in terms of the local currencies of those country units.

### HUNGARY

#### INCOME BEFORE TAX

ÁB-AEGON's income before tax of HUF 16.6 billion for 2003 showed a 16% increase compared to 2002. The increase in income before tax came from life business, with 15% growth, and from the non-life business, which showed 20% growth. For both businesses, the main reasons for the increase are the premium income growth and cost efficiencies. Additionally, in

non-life, the favorable claim payments were partially offset by a strengthening of technical provisions. The fee income from managed assets rose by 40% to HUF 2.8 billion, reflecting the increase in the pension fund portfolio and assets under management.

Premiums to reinsurers increased by more than 8%, or HUF 0.1 billion. This increase was consistent with the development of premium income. Claim payments increased by HUF 2.8 billion, mainly due to maturities of life policies in the run-off portfolio. Non-life claims developed favorably in 2003 and were HUF 0.5 billion lower than in 2002. Commissions increased by HUF 1 billion, due to high pension fund and non-life sales.

As a result of expense control and technical innovations, expenses decreased by HUF 0.2 billion, or 2%, compared with 2002, despite 5% inflation.

### REVENUES

Total revenues increased by HUF 5.1 billion compared to 2002. Premium income increased by HUF 5.1 billion. Life premium income increased by HUF 2.8 billion, mainly due to higher sales of unit-linked products, while non-life premium income increased by HUF 2.3 billion. The non-life growth was due primarily to a HUF 1.5 billion increase in the household portfolio and a HUF 0.8 billion increase in the car insurance and other non-life product lines. The measures taken to protect the existing portfolio as well as the increased number of agents were the main factors in the increase in premium income.

Investment income decreased by HUF 0.9 billion, mainly due to the maturity of high yield long-term bonds. In the second half of the year, as a result of monetary interventions, market yields increased substantially, affecting the investment performance and the market value of the portfolio.

Fee income increased by 40%, or HUF 0.8 billion, from 2002, due to a 31% increase in assets under management and the increase in the number of participants in the pension funds managed by ÁB-AEGON.

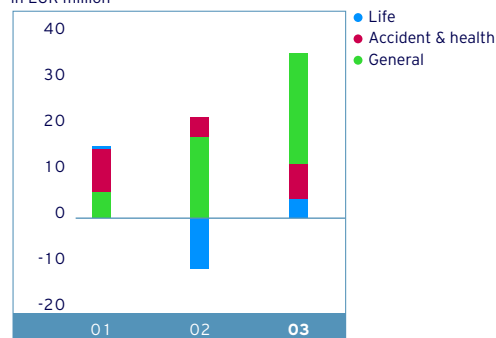
### SLOVAKIA

AEGON's life operations in Slovakia started in September 2003 as planned. Total premium income was SKK 5 million, whereas commissions and expenses were SKK 206 million.

## REVIEW OF OPERATIONS

### INCOME BEFORE TAX Spain

in EUR million



### SPAIN

#### INCOME BEFORE TAX

AEGON Spain reported income before tax of EUR 36 million for 2003, a significant increase compared to 2002.

Pre-tax results in the life business generated income before tax of EUR 4 million, an increase of EUR 15 million compared to last year's loss of EUR 11 million. The main reason for the increase was the absence of the negative effects of the previous year. These negative effects were mainly caused by the losses of MoneyMaxx, because of low production resulting from the situation in the equity markets, and accelerated amortization of DPAC.

Non-life business reported income before tax of EUR 32 million in 2003, compared to EUR 23 million in 2002, mainly due to an increase in revenues and a decrease in claims. The non-life claims ratio improved in all lines of business as a result of a decrease in the number of claims. This trend started in 1999, when measures were implemented to improve the quality of the non-life portfolio.

#### NET INCOME

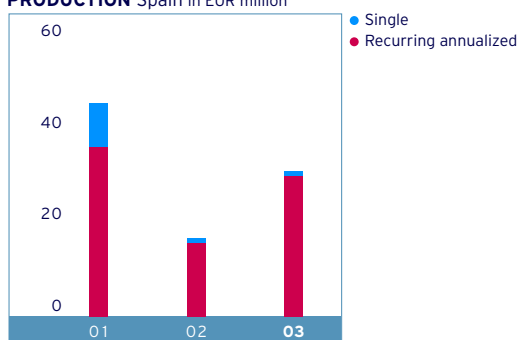
Net income of EUR 24 million for 2003 reflects a growth of 169%. The effective tax rate increased from 25% in 2002 to 34% in 2003, due to this year's higher income, whereas tax deductible items remained at the same level as in 2002.

#### REVENUES

Total revenues of EUR 475 million for 2003 increased by 4% compared to 2002.

Compared to 2002, life premiums increased by 6%. Traditional life products premium income increased by 26%, while unit-linked products premium income decreased by 21%. The switch from unit-linked products to traditional life products was due to the situation in the equity markets and a change in Spanish fiscal regulations that has neutralized the tax advantages of unit-linked products.

### STANDARDIZED NEW PREMIUM PRODUCTION Spain in EUR million



Non-life premiums increased by 4% compared to 2002. In 2003, AEGON Spain continued to concentrate on personal lines and small companies, while de-emphasizing certain high risk business lines. This was the case for the other general liability branch and the marine, aviation and transport branch, which showed decreases in premium income from 2002 of 22% and 17% respectively.

#### COMMISSIONS AND EXPENSES

The 2003 results positively reflect a reduction in expenses, mainly due to the discontinuation of the MoneyMaxx business.

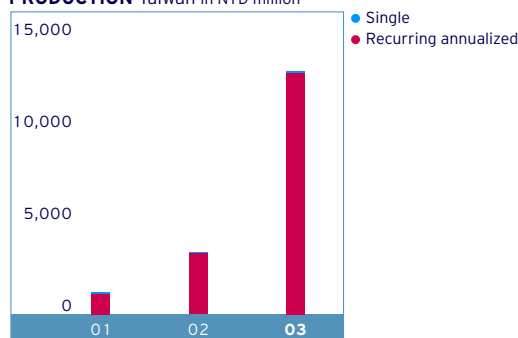
Deferred policy acquisition costs during 2003 were lower than the previous year, due to the sale of a higher proportion of life products without DPAC. This was offset by lower DPAC amortization. In 2002 there was an accelerated DPAC amortization of EUR 4 million.

#### PRODUCTION

Life production on a standardized basis increased by 88%, primarily by involving the non-life intermediaries network in the sale of life products and the launch of a group life unit.



## STANDARDIZED NEW PREMIUM PRODUCTION Taiwan in NTD million



## TAIWAN

### INCOME BEFORE TAX

AEGON Taiwan reported income before tax of NTD 15.2 million for 2003, an increase of 134% compared to NTD 6.5 million in 2002. This was primarily due to strong growth in new business production, which contributed positively to the bottom line.

### REVENUES

Premium income increased 253% to NTD 17,904 million for 2003, compared to NTD 5,073 million for 2002. Life insurance gross premiums of NTD 17,518 million increased by 260% compared to NTD 4,868 million in 2002. Most of the significant growth resulted from the newly developed distribution channels of brokers and banks. Life for account of policyholders premiums of NTD 387 million increased by 89% compared to NTD 205 million in 2002, primarily generated through the agency channels. Investment income increased 26% to NTD 546 million in 2003 compared to NTD 440 million for 2002, mainly due to an increase in the asset base. Investment assets increased from NTD 13.0 billion at December 31, 2002, to NTD 24.6 billion at December 31, 2003, but the investment yield of 3.5% in 2003 declined from 4.2% in 2002, mainly due to declining interest rates on new production.

### COMMISSIONS AND EXPENSES

Commissions amounted to NTD 4,853 million for 2003, compared to NTD 1,260 million in 2002. Expenses were up 46% to NTD 940 million from 2002, primarily as a result of an increase in the number of employees, occupancy and policy related costs in connection with the development of new distribution channels and the substantial growth of new business volumes. Acquisition and maintenance expenses significantly decreased as a percentage of premium because of continued stringent expense control, combined with a significant increase in premium.

### PRODUCTION

New premium production increased significantly compared to 2002, mainly due to the strong sales of new 104 traditional whole life products through multi-channel distribution.

## CHINA

AEGON's launch of the business in China, AEGON-CNOOC, occurred on time despite the impact of administrative restrictions relating to the SARS outbreak. Revenues were CNY 4 million in 2003.

### NON-CONSOLIDATED GROUP COMPANIES

Due to the dissimilarity of Transamerica Finance Corporation's (TFC) operations in relation to AEGON's operations, AEGON has considered TFC to be non-core. Consequently TFC's results have not been consolidated in AEGON's financial accounts.

Net income for TFC for 2003 amounted to EUR 218 million (USD 247 million) compared to EUR 51 million (USD 48 million) in 2002. Business conditions in all segments were more favorable compared to 2002. In addition to lower funding costs, lower expenses, lower credit losses and the recognition of deferred income from the termination of a major client contract for an amount of EUR 31 million (USD 35 million), several one-time tax benefits totaling EUR 27 million (USD 31 million) were realized.

### LIQUIDITY AND CAPITAL RESOURCES

#### GENERAL

The AEGON Group conducts its capital management processes at various levels in the organization. The main goal of AEGON's capital management is to manage the capital adequacy of its operating companies to high standards within leverage tolerances consistent with strong capitalization.

#### CAPITAL ADEQUACY

AEGON manages capital adequacy at the level of its country units and their operating companies. AEGON seeks to maintain its internal capital adequacy levels at the higher of local regulatory requirements, 165% of the relevant local Standard & Poor's capital adequacy models or internally imposed requirements. During 2003, the capital adequacy of AEGON's operating units continued to be strong. All of its units were capitalized within these tolerances. In the United States, at December 31, 2003, AEGON held 330% of the minimum capital required by the National Association of Insurance Commissioners.

## REVIEW OF OPERATIONS

### CAPITAL BASE

AEGON applies leverage tolerances to its capital base. The capital base reflects the capital employed in core activities and consists of shareholders' equity, capital securities and dated subordinated and senior debt. AEGON seeks to manage its capital base to comprise at least 70% shareholders' equity, between 5% and 15% capital securities, and a maximum of 25% dated subordinated and senior debt. At December 31, 2003, AEGON's leverage was within these prescribed tolerances: equity capital represented 71% of its total capital base, while senior and dated subordinated debt comprised 19% of its total capital base. Capital securities accounted for the remaining 10%. The ratio of shareholders' equity to total capital remains stable at approximately the same level as it was at year-end 2002.

AEGON manages currency risk related to its capital base using established currency risk policies. Capital employed in operating subsidiaries required to satisfy (local) regulatory and self-imposed capital requirements is kept in local currencies and is subject to currency movements when translated into euro for reporting purposes. The non-equity components of AEGON's capital base are held in or swapped into various currencies proportionally to the value of AEGON's activities in those currencies. Although AEGON's debt-to-total-capital ratio is accordingly not materially affected by currency volatility, currency fluctuations may affect the level of the capital base as a result of translation into euro. For more detail on currency risk, see page 33 and following.

### SHAREHOLDERS' EQUITY

Shareholders' equity was EUR 14,132 million at December 31, 2003, compared to EUR 14,231 million at December 31, 2002. The decrease of EUR 99 million was largely due to the negative currency exchange rate difference of EUR 1,779 million (primarily resulting from the decline in the value of the US dollar compared to the euro), offset by net income of EUR 1,793 million before distribution of both preferred and common dividends. Goodwill charges of EUR 358 million, mainly as a result of the consolidation of the Meeûs Groep in the Netherlands, were largely offset by the gain on the sale of TFC's real estate tax services and flood hazard certification business units.

### DEBT FUNDING AND LIQUIDITY

AEGON's funding strategy continues to be based on assuring excellent access to international capital markets at low costs. As part of this strategy, AEGON aims to offer debt securities in amounts that are eligible for inclusion in major capital market indices and supports maintenance of liquid secondary markets in these securities by the banking community. This focus on the institutional fixed income investor base will continue to be supported by an active investor relations program to keep investors well informed about AEGON's strategy and results.

Most of AEGON's external debt is issued by the parent company, AEGON N.V., as well as two companies whose securities are guaranteed by AEGON N.V.

AEGON N.V. has employed its regular access to the capital markets through private placements issued under its USD 6 billion Euro Medium Term Notes Program and under a separate US shelf registration. AEGON's USD 2 billion Euro Commercial Paper Program and AEGON Funding Corp.'s USD 4.5 billion Euro Commercial Paper Program facilitate access to international and domestic money markets, when required. Additionally, AEGON utilizes a USD 300 million US Domestic Commercial Paper Program. AEGON maintains back-up credit facilities to support outstanding amounts under its Commercial Paper programs. Its committed credit facilities, provided by banks with strong credit quality, exceed USD 3 billion. In addition AEGON has access to various credit lines.

Internal sources of liquidity include distributions from operating subsidiaries on the basis of excess capital or cash and cash equivalents. Internal distributions may be subject to (local) regulatory requirements. Each business unit further manages its liquidity through closely managing the liquidity of its investment portfolio. For more detail on management of liquidity, see page 39.

AEGON uses common derivative financial instruments such as swaps, options, futures and cross-currency derivatives to hedge against its exposures related to external borrowings. In general, the accounting treatment of the derivative mirrors the accounting treatment of the underlying financial instrument. For more detail on the use of derivatives, see page 38.

In the second quarter of 2003, in line with its funding strategy, AEGON N.V. issued EUR 1 billion of five year fixed rate notes, USD 750 million of ten year fixed rate notes and USD 250 million of two year floating rate notes to refinance maturing long-term and short-term debt. At December 31, 2003, AEGON N.V. had EUR 1.8 billion outstanding under its Medium Term Notes Program and EUR 1.6 billion under its Commercial Paper Programs.

The duration profile of AEGON's capital debt and interest rate structure is managed in line with the estimated duration of its investments in its subsidiaries. Of AEGON's total capital debt at December 31, 2003, approximately EUR 2.1 billion matures within three years, EUR 1.2 billion between three and five years, and EUR 2.4 billion thereafter. AEGON believes its working capital, backed by the external funding programs and facilities, is amply sufficient for the group's present requirements.

During 2003, Standard and Poor's lowered AEGON N.V.'s credit ratings and now rates AEGON's senior debt at A+ with a stable outlook. The insurance financial strength ratings of our insurance operations in the United States are now AA, with a stable outlook. Moody's maintained the senior debt rating of AEGON N.V. at A2, with a negative outlook, while the outlook on the Aa3 insurance financial strength ratings of our United States operations remained stable.





# RISK MANAGEMENT AND RISK FACTORS

AEGON CONTINUES TO CLOSELY ALIGN ITS CAPITAL  
MANAGEMENT WITH RISK MANAGEMENT

## RISK MANAGEMENT AND RISK FACTORS

### GENERAL

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

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

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

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

### CURRENCY EXCHANGE RATE RISK

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

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

Table 1

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

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

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

Table 2

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

The sensitivity analysis in table 3 shows the effect on net income and shareholders' equity of movements in the exchange rates of AEGON's most important currencies relative to the euro.

### INTEREST RATE RISK

AEGON bears interest rate risk in many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the liabilities can mitigate this risk - a method that AEGON employs. However, in some products, liability cash flows are less predictable. The uncertainty arises from policyholder actions that can be affected by the level of interest rates.

In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may increase and usually do. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments requiring the selling of 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 AEGON 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 credit rates on policies at the low

levels that would 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.

The general account fixed income portfolios of AEGON USA and AEGON The Netherlands accounted for 96% of the total general account fixed income portfolio of the AEGON Group at December 31, 2003. AEGON USA and AEGON The Netherlands manage their duration mismatch on the basis of their expectations for the future level of interest rates. Presently, the other country units target the duration of their assets to equal approximately the duration of their liabilities. In addition to point in time duration measurement, deterministic and stochastic scenarios are used to measure and manage interest rate risk. In these models, policyholder behavior changes are anticipated. These models are used by all country units and aggregated at group level.

For AEGON USA's businesses, the average duration of assets is approximately 4.5 years. This relatively low duration, as compared to the long-term nature of most AEGON USA's businesses, is driven by the asset and liability management process applied to the institutional markets business in the United States (guaranteed investment contracts and funding agreements). Both the assets and the liabilities for this business are managed on a floating rate basis, with extensive use of interest rate swaps. As a result, these assets and liabilities, which represent a little over a quarter of the total general account assets and liabilities of AEGON USA, have an effective duration of close to three months. The maximum allowed duration mismatch between the assets and liabilities of AEGON USA and AEGON The Netherlands is plus or minus one year. For AEGON The Netherlands, the average duration of assets is approximately 4.7 years. The combined market value weighted duration mismatch of AEGON USA and AEGON The Netherlands was around minus 1.0 years at December 31, 2003. Table 4 on the next page shows each of the last five year-end interest rates for the period from 1999 through 2003.

Table 3

### SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO CURRENCY EXCHANGE RATE MARKETS <sup>1,2</sup>

Movement of markets	Effects on net income	Effects on shareholders' equity
Increase versus the euro of USD, GBP and other currencies of 15%	increase between 12.5% and 13.5%	increase between 15% and 16%
Decrease versus the euro of USD, GBP and other currencies of 15%	decrease between 12.5% and 13.5%	decrease between 15% and 16%

<sup>1</sup> Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All percentage changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

<sup>2</sup> The effect of currency exchange rate movements is reflected as a one-time shift up or down in the value of the US dollar, the UK pound and other currencies on January 1, 2004.

## RISK MANAGEMENT AND RISK FACTORS

Table 4

	1999	2000	2001	2002	2003
3 month US Libor	6.00%	6.40%	1.88%	1.38%	1.15%
3 month Euribor	3.34%	4.86%	3.29%	2.87%	2.12%
10-year US Treasury	6.43%	5.10%	5.04%	3.82%	4.25%
10-year Dutch government	5.47%	4.99%	5.11%	4.23%	4.29%

The sensitivity analysis in table 5 shows an estimate of the effect on net income of movements in the interest rates.

The main driver for the asymmetric effects of an immediate change of interest rates up or down by 1% or 2% is the interest rate risk of AEGON USA. It is estimated that an immediate increase of 1% or 2% will have a negative effect on earnings mainly as a result of a sudden rise in lapse rates on fixed annuities. A sudden decrease of 1% or 2% will cause an overall positive effect as a result of lower lapse rates but is partially offset by a compression of spreads. It is estimated that a gradual increase of interest rates would have a substantially more benign effect on earnings.

The sensitivities have a similar impact on shareholders' equity. 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 portfolios.

### CREDIT RISK

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, 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, 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.

The company actively manages its credit risk exposure by individual counterparty, sector and asset class. AEGON also employs deterministic and stochastic credit risk modeling in order to assess AEGON's credit risk profile and associated earnings and capital implications due to various credit loss scenarios.

The general account fixed income portfolios of AEGON's major country units are presented in table 6 by rating category.

The fixed income portfolio of AEGON The Netherlands is of high average credit quality. More than 80% of the portfolio is invested in treasuries and AAA/AA-rated securities while of the remainder (excluding mortgages) around 6% is BBB-rated and less than 1% is below investment grade or not rated. With

Table 5

### SENSITIVITY ANALYSIS OF NET INCOME TO INTEREST RATES<sup>1,2</sup>

Parallel movement of yield curve	Approximate effects on net income
Shift up 100 basis points	EUR (35) million
Shift up 200 basis points	EUR (125) million
Shift down 100 basis points	EUR 45 million
Shift down 200 basis points	EUR 35 million
Shift down 100 basis points of long-term fixed income DPAC assumptions	EUR (25) million

<sup>1</sup> Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken; changes are relative to net income. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

<sup>2</sup> The effect of interest rate movements is reflected as the effect of a one-time parallel shift up or down of all relevant yield curves on January 1, 2004.

Table 6

### GENERAL ACCOUNT FIXED INCOME (in millions)

Rating category	AEGON AMERICAS (in USD)	AEGON THE NETHERLANDS (in EUR)	AEGON UK (in GBP)	OTHER COUNTRIES (in EUR)	TOTAL (in EUR)
Treasuries/agencies	6,387	5,067	224	1,080	11,522
High quality (AAA)	16,128	566	209	104	13,737
High quality (AA)	7,837	319	183	247	7,031
Investment grade (A)	30,061	867	596	357	25,871
Investment grade (BBB)	29,106	472	103	7	23,670
High yield (BB and lower)	7,421	62	0	2	5,940
Mortgages	14,036	4,675	0	7	15,795
Other	2,420	302	1	42	2,261
Total investments fixed income	113,396	12,330	1,316	1,846	105,827

respect to the portion of AEGON The Netherlands' fixed income portfolio composed of residential mortgages, the actual default experience is low, at an annual rate of approximately 0.02%.

Country units apply specific guidelines for the acceptable level of credit risk and provide for default losses. AEGON monitors its aggregate exposure to credit counterparties at group level. For this purpose, AEGON aggregates exposures from its country units to assess overall credit risk. To manage its credit risk, AEGON has a single credit counterparty limit policy that is applied to all forms of credit risk. Each form of credit exposure will be factored depending on the form of credit risk in order to arrive at a risk-weighted credit exposure.

These risk-weighted credit exposures must be within AEGON's risk-weighted credit exposure limits, which are shown in the table below.

Table 7

**AEGON GROUP-WIDE WEIGHTED COUNTERPARTY EXPOSURE LIMIT<sup>1</sup>**  
(in EUR millions)

	LIMIT
AAA	800
AA	800
A	600
BBB	400
BB	175
B	100
CCC	35

<sup>1</sup> The fixed income issuer rating is used when applying the risk-weighted credit counterparty limit exposure policy.

If an exposure exceeds the stated limit as a result of a downgrade, the exposure must be readjusted as soon as practical to the limit for that rating category. The limits vary with the asset quality of the security. In all cases, exceptions to these limits can only be made after explicit approval in advance from AEGON senior management.

AEGON establishes provisions for credit risk in the ordinary course of business. AEGON added EUR 431 million to its default provisions during 2003, while EUR 464 million was charged for defaults. Other movements, mainly due to currency fluctuations, had a negative impact of EUR 43 million on the provision, leaving a balance at year-end of EUR 260 million (2002: EUR 336 million).

## EQUITY MARKET RISK

Fluctuations in the equity and real estate markets have adversely affected and may continue to adversely affect AEGON's 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 investments, 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. Liability exposure is present in equity-linked products whereby policyholder funds are invested in equities at the discretion of the policyholder, where most of the risk remains with the policyholder. Examples of these products include variable annuities, variable universal life products, unit-linked products and mutual funds. AEGON typically earns a fee on the asset balance in these products and therefore has a risk related to the investment performance. In addition, some of this business has minimum return or accumulation guarantees, which are often life contingent or contingent upon policyholder persistency.

AEGON is at risk if equity market returns do not exceed these guarantee levels and may need to set up additional reserves to fund these future guaranteed benefits. AEGON is also at risk if returns are not sufficient to allow amortization of deferred policyholder acquisition costs. It is possible under certain circumstances that AEGON would need to accelerate amortization of DPAC and to establish additional provisions for minimum guaranteed benefits, which would reduce net income

Table 8

**EQUITY RELATED EXPOSURE IN GENERAL ACCOUNT ASSETS**  
(in millions)

	AEGON AMERICAS (in USD)	AEGON THE NETHERLANDS (in EUR)	AEGON UK (in GBP)	OTHER COUNTRIES (in EUR)	TOTAL (in EUR)
<b>ASSETS</b>					
Equity securities	3,107	3,891	76	81	6,540
Real estate	724	1,611	0	60	2,244
<b>TOTAL</b>	<b>3,831</b>	<b>5,502</b>	<b>76</b>	<b>141</b>	<b>8,784</b>



## RISK MANAGEMENT AND RISK FACTORS

and shareholders' equity. Volatile or poor market conditions may also significantly reduce the popularity of some of AEGON's savings and investment products, which could lead to lower sales and net income.

AEGON's general account equity holdings are shown in table 8 on the previous page.

The general account equity and real estate portfolios of AEGON USA and AEGON The Netherlands accounted for 97% of the general account equity and real estate portfolio of the AEGON Group of EUR 8,784 million at December 31, 2003. Of AEGON's country units, AEGON The Netherlands holds the largest amount of investments classified as equities, both in absolute terms and expressed as a percentage of total general account investments. The largest part of the equity portfolio of AEGON The Netherlands consists of a diversified portfolio of global equities and 5% equity holdings in Dutch companies, which include non-redeemable preferred shares.

The table below sets forth the year-end closing levels of certain major equity market indices.

Table 9

Year-end	1999	2000	2001	2002	2003
S&P 500	1,469	1,320	1,148	880	1,112
Nasdaq	4,069	2,471	1,950	1,336	2,003
FTSE 100	6,930	6,222	5,217	3,940	4,477
AEX	671	638	507	323	338

AEGON's shareholders' equity is directly exposed to movements in the equity markets. Beginning in 2004, AEGON will discontinue the indirect income method and instead recognize in income realized gains and losses on equities and real estate, which may lead to increased sensitivity of net income to movements in equity markets. In addition, net income is sensitive to the fees earned on equity investments held for account of policyholders as well as the amortization of deferred policy acquisition costs and provisioning for minimum product guarantees.

Sensitivity analysis of net income and shareholders' equity to equity and real estate markets is presented in table 10.

Table 10

### SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO EQUITY AND REAL ESTATE MARKETS<sup>1,2</sup>

Movement of markets	Approximate effects on net income	Approximate effects on shareholders' equity
Increase of equity and real estate markets of 10%	EUR 70 million	EUR 455 million
Decrease of equity and real estate markets of 10%	EUR (55) million	EUR (470) million
Decrease of equity and real estate markets of 20%	EUR (270) million	EUR (965) million
Shift down 100 basis points of long-term equity DPAC assumptions	EUR (65) million	

<sup>1</sup> Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

<sup>2</sup> The approximate effects on shareholders' equity excludes the effects on net income, which is presented above separately.

<sup>2</sup> The effect of movements in equity and real estate markets is reflected as a one-time increase or decrease of worldwide equity and real estate markets on January 1, 2004.

The sensitivity of shareholders' equity and net income to changes in equity and real estate markets reflects changes in the market value of AEGON's portfolio, changes in DPAC amortization, contributions to pension plans for AEGON employees, no effect from realized gains or losses and the strengthening of the guaranteed minimum benefits, when applicable. The main reason for the non-linearity of results is that more severe scenarios can cause accelerated DPAC amortization and guaranteed minimum benefits provisioning, while moderate scenarios may not.

### DERIVATIVES RISK

AEGON is exposed to currency fluctuations, changes in the fair value of its investments, the impact of interest rate and credit spread changes and changes in mortality and longevity. AEGON uses common financial derivative instruments such as interest rate swaps, options, futures and forward contracts to hedge some of the exposures related to both investments backing insurance products and company borrowings. AEGON may not be able to manage the risks associated with this activity successfully through the use of derivatives. In addition, a counterparty may fail to honor the terms of its derivatives contracts. Both scenarios could have a material adverse effect on AEGON's business, results of operations and financial condition. The notional amount of AEGON's derivative use can be found on page 104 and following.

Generally, derivatives are used for hedging purposes, however, credit default swaps are used for purposes of selectively increasing credit exposures. Credit default swaps are used in combination with high quality low risk assets to synthetically replicate corporate credit exposures in constructing investment portfolios. Credit default swaps are also sold on a limited basis to generate fee income.

Derivative use is managed by requiring a written hedge or derivative program policy. All traded derivatives must be under one of these policies. The financial implications of derivatives are modeled along with all other financial instruments - whether interest rate, credit or equity risk modeling.

## LIQUIDITY RISK

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.

AEGON closely monitors and manages its liquidity position. AEGON employs a 'source and use' liquidity modeling technique that measures the degree of excess liquidity at various time frames over worsening catastrophic scenarios. Liability liquidity or cash needs are estimated over these catastrophic or 'run on the bank' scenarios throughout AEGON.

Cash generation is then estimated over these same scenarios with the stipulation that a close to fair price is received on asset sales (that is, AEGON can not flood the market). The objective is for AEGON's cash sources to exceed cash needs over all scenarios and time frames. Asset portfolios are constructed so that each country unit is self-supporting from a liquidity perspective. Future premiums, surplus assets, back-up liquidity lines and other contingent cash sources and management action are not utilized in the liquidity testing. This analysis is completed at each business unit, country unit and group level.

## UNDERWRITING RISK

AEGON's earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions AEGON uses in setting the prices for products and establishing the technical provisions and liabilities for claims. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, net income would be reduced. Furthermore, if these higher claims were part of a trend, AEGON may be required to increase liabilities and this would further reduce net income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded 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 AEGON's business, results of operations and financial condition.

Underwriting risk is first managed through the product pricing process where margins for adverse deviation and profit on expected claims are priced in. AEGON monitors claim trends and its own experience relative to expectations through experience studies. In addition, claims risk is diversified and managed through exclusions, exposure limits, such as through retention and cover limits through reinsurance.

Of AEGON's business containing mortality risk, AEGON has a significantly greater proportion of business in those products paying death benefits (life insurance) versus those making payment contingent on survivorship (life annuities). Therefore worsening mortality trends are a greater risk for AEGON compared to mortality improvement trends.

## OTHER RISKS

### RATINGS

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) could, among other things, materially increase the number of policy surrenders and withdrawals by policyholders, adversely affecting relationships with broker-dealers, banks, agents, wholesalers and other distributors of AEGON's products and services. 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.

The current financial strength ratings for AEGON USA's insurance companies are AA (very strong) with Standard & Poor's and Aa3 (excellent) with Moody's. Both agencies have a stable outlook on the ratings of AEGON USA companies. Negative changes in credit ratings may increase AEGON's cost of funding. On April 8, 2003, Standard and Poor's lowered its counterparty credit rating on AEGON's senior debt from AA- to A+, with a stable outlook. During 2003, Moody's maintained its rating on AEGON's senior unsecured debt at A2 with a negative outlook.

### GOVERNMENT REGULATION

AEGON's insurance business is subject to comprehensive regulation and supervision in all countries in which AEGON operates. The primary purpose of such regulation is to protect policyholders, not holders of AEGON's securities. Changes in existing insurance laws and regulations may affect the way in which AEGON conducts its business and the products AEGON may offer. For example, AEGON expects sales in the United States 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 statewide '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 AEGON's ability to sell new policies or its 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.

## RISK MANAGEMENT AND RISK FACTORS

AEGON's ability to make payments on debt obligations and pay certain operating expenses may depend upon the receipt of dividends from subsidiaries. Certain of these subsidiaries have regulatory restrictions, which can limit the payment of dividends.

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 United States 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 US Congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal of the estate tax continues to be discussed, 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 AEGON's 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 AEGON's products, including group savings products. Any changes in United States or Dutch tax law affecting products could have a material adverse effect on AEGON's business, results of operations and financial condition.

### LITIGATION

AEGON faces significant risks of litigation and regulatory investigations and actions in connection with AEGON's 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.

### CHANGES IN ACCOUNTING PRINCIPLES

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 AEGON's reported results, financial condition and shareholders' equity.

The Hague, March 11, 2004

The Executive Board





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# AEGON AROUND THE WORLD

INFORMATION ABOUT PRODUCTS AND  
COUNTRY UNITS

PRODUCT LINE OVERVIEW<sup>1</sup>

GENERAL ACCOUNT

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

CUSTOMERS individuals pension funds companies banks	DISTRIBUTION (independent) agents brokers direct response worksite marketing financial institutions
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Traditional life products contributed 48% of AEGON's income before tax 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 early 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 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.

FIXED ANNUITIES

CUSTOMERS individuals pension funds	DISTRIBUTION (independent) agents financial institutions brokers direct response
---	--

Fixed annuities contributed 13% of AEGON's income before tax 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 annuity 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 annuity is sold.

<sup>1</sup>Income before tax in this section refers to income before tax excluding interest charges and other and the income of Transamerica Finance Corporation.

## GICS AND FUNDING AGREEMENTS

CUSTOMERS	DISTRIBUTION
pension funds*	(independent) agents
financial institutions*	brokers
money market funds**	direct
municipalities**	
overseas investors**	

\* tax qualified

\*\* non-tax qualified

Guaranteed investment contracts (GICs) and funding agreements (FAs) contributed 8% of AEGON's income before tax 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 United States 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.

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 six months up to ten 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 three to thirteen months.

## ACCOUNT OF POLICYHOLDERS

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

## LIFE FOR ACCOUNT OF POLICYHOLDERS

CUSTOMERS	DISTRIBUTION
individuals	(independent) agents
	marketing organizations
	financial institutions
	worksite marketing
	franchise organizations
	brokers

Life products for account of policyholders contributed 15% of AEGON's income before tax 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 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, mortality-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 account of policyholders.

Tontine plans 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 out 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, provided 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.

PRODUCT LINE OVERVIEW<sup>1</sup>

VARIABLE ANNUITIES

CUSTOMERS individuals pension funds	DISTRIBUTION (independent) agents marketing organizations brokers financial institutions
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Variable annuities contributed 2% to AEGON's income before tax 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.

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 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

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

AEGON's fee business comprises products that generate fee income by providing management, administrative or risk services related to off balance sheet assets (i.e. equity or bond funds, third-party managed assets and collective investment trusts). AEGON's operations in the United States provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts, and asset allocation (retirement planning) services. AEGON serves the following retirement

plan markets: corporate defined benefit plans, corporate defined contribution plan, 401(k) plans, not-for-profit organizations qualifying for tax qualified annuities under section 403(b) of the United States 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 a mutual fund (off balance sheet).

The United States 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.

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

<sup>1</sup>Income before tax in this section refers to income before tax excluding interest charges and other and the income of Transamerica Finance Corporation.

products The intercession activities in real estate comprise brokerage activities of residential as well as commercial real estate and real estate management business.

In the United Kingdom, the independent advisors, in which AEGON UK now has a significant position, 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**

CUSTOMERS individuals companies	DISTRIBUTION (independent) agents brokers direct marketing
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Accident and health insurance contributed 11% to AEGON's income before tax 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, Hungary and Spain.

AEGON offers limited forms of health insurance, including disability insurance in the Netherlands, Hungary and Spain 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 United States, 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**

CUSTOMERS individuals companies	DISTRIBUTION (independent) agents brokers
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General insurance contributed 2% to AEGON's income before tax 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**

CUSTOMERS individuals companies	DISTRIBUTION (independent) agents direct marketing retailers franchise organizations
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Banking products contributed 0.8% to AEGON's income before tax 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. securities 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 securities 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.



## PRODUCT LINE OVERVIEW<sup>1</sup>

### 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.

GENERAL ACCOUNT	United States	Canada	Netherlands	United Kingdom	Hungary	Spain	Taiwan
Traditional life							
Fixed annuities							
GICs and funding agreements*							
<b>ACCOUNT OF POLICYHOLDERS</b>							
Life for account of policyholders							
Variable annuities							
Fee business							
<b>BANKING</b>							
Banking							
Accident and health insurance							
General insurance							

\*Also distributed internationally from the United States

EARNINGS CONTRIBUTION	2003	2002	2001
<b>GENERAL ACCOUNT</b>			
Traditional life	1,218	1,457	1,557
Fixed annuities	334	174	358
GICs and funding agreements	213	272	215
	<b>1,765</b>	<b>1,903</b>	<b>2,130</b>
<b>ACCOUNT OF POLICYHOLDERS</b>			
Life for account of policyholders	378	371	632
Variable annuities	63	-462	120
Fee business	6	2	94
	<b>447</b>	<b>-89</b>	<b>846</b>
<b>OTHER ACTIVITIES</b>			
Accident and health insurance	283	278	209
General insurance	61	62	67
Banking	20	8	45
Book profit Mexico	-	-	343
	<b>364</b>	<b>348</b>	<b>664</b>
<b>TOTAL INCOME BEFORE TAX</b>	<b>2,576</b>	<b>2,162</b>	<b>3,640</b>

<sup>1</sup>Income before tax in this section refers to income before tax excluding interest charges and other and the income of Transamerica Finance Corporation.





#### GENERAL HISTORY

**AEGON's operations in the Americas comprise of 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 United States 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. Reference to AEGON, or AEGON USA, generally means one or more of its operating subsidiaries.**

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 (formerly J.C. Penney), Rutland (Vermont USA)
- 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)
- First AUSA Life Insurance Company, Baltimore (Maryland USA).

The United States operations (carried out by the collective group of operating companies in the United States) 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 operations in the United States 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 operations in the United States are derived from traditional life products.

Operationally, the United States subsidiary companies 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.

#### 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 divisions:

- 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.

## AEGON AROUND THE WORLD

**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 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, Pre-Need 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 United States 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, internet and direct marketing. Products are also marketed using the endorsement of sponsoring organizations, such as financial institutions, car 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.

### 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, and 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.

#### **INSTITUTIONAL PRODUCTS AND SERVICES GROUP**

**The Institutional Products and Services Group** include AEGON Institutional Markets Division and Transamerica Reinsurance.

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 IMD holds the leading market position (source: reports of LIMRA International), while new entrants in this market have increased competition and margin compression. IMD responded through product customization, strong service capabilities and profitable pricing. IMD's skills in product development, distribution, investment and risk management have resulted in a diversified customer and market base and multi-channel distribution. IMD also administers AEGON's USD 6.9 billion (book value) block of structured settlement payout annuities business. New sales of 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 United States, 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 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, ERISA expertise and offering a broad range of investment choices.

## AEGON AROUND THE WORLD

### 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.

### CANADA

#### GENERAL HISTORY

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

The primary operating companies that comprise ACI are:

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

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.'s (AFM) 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.

### PRODUCTS AND DISTRIBUTION

#### 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 product 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
- other national, regional and local/niche broker-dealers.



# AEGON THE NETHERLANDS

## GENERAL HISTORY

**AEGON Nederland N.V. (AEGON The Netherlands) was incorporated under the name AGO Holding N.V. on December 27, 1972. AEGON The Netherlands 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.**

The primary insurance subsidiaries in the Netherlands, all of which are wholly owned, are:

- AEGON Levensverzekering N.V., The Hague
- AEGON Schadeverzekering N.V., The Hague
- AEGON NabestaandenZorg N.V., Groningen
- AEGON Spaarkas N.V., The Hague
- AEGON Bank N.V., Utrecht
- Spaarbeleg Kas N.V., Utrecht
- Meeùs Groep B.V., Amersfoort
- 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.

## 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 AEGON Pensioen en Advies (AEGON Pension and Advice) and AEGON Bedrijfspensioenen (AEGON Corporate Pensions) business units, while TKP Pensioen offers administrative services for large pension funds.

AEGON Pension and Advice services large companies as well as company pension funds (ondernemingspensioenfondsen) and industry pension funds (bedrijfstakpensioenfondsen). 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)
- 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 small and medium-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.

AEGON Levensverzekering N.V. introduced two new pension products: AEGON Pension Investment and AEGON Pension Accelerator.

AEGON Pension and Advice does not sell products through intermediaries but rather sells directly to clients and through actuarial advisors. **AEGON Corporate Pensions** sells pensions to small and medium-sized companies through intermediaries.



## AEGON AROUND THE WORLD

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

### FUND PLAN AND SAVINGS PLAN PRODUCTS

The fund plan and savings plan products are mainly endowment and savings type products, both single premium and recurring premium 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 year, or on the death of the insured.

### ENDOWMENT AND SAVINGS PRODUCTS

The endowment and savings types of products have recurring premiums with contractual surplus interest profit sharing.

### MORTGAGE SAVINGS PRODUCTS

With the 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 out 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. In addition to the tontine products, **Spaarbeleg Kas N.V.** sells a number of tax driven products like **Toekomstplan** (Future Plan) and **Koersplan** (Index Plan) and has provided better access to products and services in order to meet consumers' requests with respect to pension issues. Products are sold through 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.

**AXENT/AEGON** transferred its group life business to the business unit AEGON Corporate Pensions, the funeral business to AEGON NabestaandenZorg (AEGON NBZ) and the administration of its life and savings portfolio to AEGON Personal Lines. 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, AEGON NBZ 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 death. 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 Schade Bedrijven** (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 Commercial Lines offers accident and health, and property and 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 multi-channel strategy, with franchise organizations contributing the majority of AEGON Bank N.V.'s total sales. In addition, internet sales are growing.

**AEGON Financiële Diensten B.V.** sold securities lease products via independent agents. Securities lease products provided customers with a loan allowing these customers to acquire securities. As a result of the bearish equity markets, the proceeds of the securities may over time prove to be insufficient to pay back the loans in full. AEGON The Netherlands discontinued selling securities 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 and 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 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.

## **REINSURANCE CEDED**

### **LIFE**

The life companies have a two-part reinsurance strategy. The first part is a profit sharing contract between AEGON Levensverzekering N.V. and Swiss Re, with a retention of EUR 900,000 per policy. The second part is a facultative reinsurance of AEGON The Netherlands' mortality and morbidity risk 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.



### 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.**

The primary insurance subsidiaries in the United Kingdom 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
- AEGON UK Distribution Holdings Ltd, London.

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.

### PRODUCTS AND DISTRIBUTION

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.

### PENSIONS

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

As a result of the launch of the stakeholder pensions 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 British government announced a change 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 ongoing 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 online 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 freestanding 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 roll-up of assets, allowing personal tax to be deferred until the monies are repatriated to the United Kingdom.

## 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.

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 United Kingdom government questioned the tax breaks applied to the bond wrapper. These factors have had a significant negative impact on the bond market in the United Kingdom 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 clients in the United Kingdom and overseas.

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 product 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 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 fulfill the needs of employers and employees. SEEB offers these group risk contracts through its Corporate and Employee Protection Menus.

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

## AEGON AROUND THE WORLD

protection and group private medical coverage. The Employee Protection Menu adds an additional layer of flexibility where the individual employee 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 United Kingdom during 2004. Following distribution business acquisitions during 2002 and 2003, AEGON now has a significant position in the United Kingdom 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).

### DISTRIBUTION CHANNELS

AEGON UK's principal means of distribution has been through the independent financial advisor (IFA) channel in the United Kingdom 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 over 17 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.

### REINSURANCE CEDED

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 the life business. For group business, AEGON UK seeks to obtain insurance coverage for 50% of the 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 business, the unit liability is reinsured to the third party organization. The credit risk relating to the investments is borne by the pension contractholders while AEGON UK retains ultimate credit risk relating to the external fund managers.



#### GENERAL HISTORY

**ÁB-AEGON Általános 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 has four subsidiaries:

- AEGON Securities
- AEGON Real Estates
- AEGON Pension Fund Management Co
- 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.

#### 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 presents 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.

#### PENSIONS

Pension insurance is a core business 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 ÁB-AEGON became part of the AEGON Group. The premium income from these policies is small and the profit margin is very low. Traditional general account products also include indexed life products that are not unit-linked but have guaranteed interest. ÁB-AEGON no longer offers either of these products.

#### UNIT-LINKED PRODUCTS

Unit-linked products are the most recent and most important products sold by ÁB-AEGON. Unit-linked products are connected to a mutual fund and the investment company buys units of the mutual fund with the policyholder's funds. ÁB-AEGON deducts only an asset management fee. The unit-linked products cover all types of life insurance (including pension, endowment and savings). They have recently been very popular in Hungary and the largest part of ÁB-AEGON's new sales is derived from unit-linked life products.

#### GROUP LIFE PRODUCTS

These products are mostly identical to unit-linked products and some of them have guaranteed interest and accidental health coverage. They are sold to companies covering large groups of employees.

#### ASSET MANAGEMENT

ÁB-AEGON also provides asset management services through its subsidiary, AEGON Securities. It offers five mutual funds to the public: domestic bond, domestic equity, international bond, international equity and money market. The assets of the Pension Fund Management Company are managed by AEGON Hungary Fund Management Company.

#### DISTRIBUTION CHANNELS

ÁB-AEGON's distribution channels are the composite network, the life network, independent agents and brokers.

ÁB-AEGON's two main distribution channels (the composite and life networks) work with agents but the company also uses alternative channels and partners to increase the number of sales in this sector. This system enabled ÁB-AEGON to keep a strong position in life insurance new sales in 2002 and 2003.

ÁB-AEGON also endeavors to develop relationships with banks. ÁB-AEGON's current partner banks offer mortgage products, simple savings products and units of AEGON Securities' mutual funds to the public.



## AEGON AROUND THE WORLD

### REINSURANCE CEDED

ÁB-AEGON's reinsurance partners are all large European reinsurers in the European and London markets. In accordance with ÁB-AEGON's security guidelines, only reinsurers with a minimum rating of A+ (Standard & Poor's) are utilized. The three most important programs in force in the last ten years are the Catastrophe Excess of Loss Treaty, the Motor Third Party Liability Excess of Loss Treaty and the Property per Risk Excess of Loss Treaty. ÁB-AEGON's catastrophe cover, which protects private homeowners, is quite significant in the Hungarian market. In addition, ÁB-AEGON has smaller treaties for other business lines, such as General Third Party Liability, Marine Cargo and Life & Group Life Business. The majority of ÁB-AEGON's programs are non-proportional Excess of Loss programs.

### SLOVAKIA

On September 2, 2003, AEGON Slovakia began operations as a branch office of AEGON Levensverzekering N.V., operating through a locally managed headquarters. AEGON Slovakia is managed by AEGON Hungary. The sales force carries out its activities in four regions – Bratislava, Trnava, Banská Bystrica and Košice – with 20 unit managers and 250 agents. Besides its own sales network, brokers are utilized for product distribution.

AEGON Slovakia sells three basic products: endowment, term fixed and whole life insurance – both unit-linked and non-unit-linked versions, and four riders: accidental death, accidental disability, critical illness and waiver of premium.



### GENERAL HISTORY

**AEGON SPAIN operated through three insurance companies during 2003: AEGON Seguros Generales, AEGON Seguros Salud and AEGON Seguros de Vida. Since December 2003, these companies are held by one holding company, AEGON España SA, an economic interest grouping which provides operational and administrative services to the various insurance companies. In December 2003, AEGON MoneyMaxx SA was merged into AEGON Seguros de Vida.**

AEGON entered the Spanish market in 1980 through the acquisition of Seguros Galicia. This was followed by the acquisition of Union Levantina in 1987, Union Previsora in 1988, Labor Medica in 1996, La Sanitaria in 1997, Caja de Previsión y Socorro in 1997 and Covadonga in 1999.

In 2003, 24% of AEGON Spain's premium income was derived from life insurance, 57% was derived from property and casualty insurance and 19% was derived from health insurance.

### PRODUCTS AND DISTRIBUTION

Over the past several years, AEGON Spain has focused its activities on the growth of its life insurance business, particularly unit-linked products. By marketing unit-linked variable life products to professionals through multiple distribution channels, AEGON Spain has made significant inroads into a market traditionally dominated by banks.

With respect to life insurance, AEGON Spain's principal lines of business are traditional life and unit-linked insurance products. Traditional life insurance comprises permanent and term life insurance. Permanent life insurance provides life-long financial protection.

The main general insurance products are motor and fire insurance. These products are distributed exclusively through the agency channel, using a network of more than 3,000 agents and brokers.

### DISTRIBUTION CHANNELS

For distribution purposes, AEGON Spain makes a distinction between individual life and group life. Individual life products are sold in urban centers by specialized agents and brokers and in rural areas by specialized agents and on a direct marketing basis using the MoneyMaxx concept. Group life products are distributed through banks and financial institutions as well as through brokers and specialized agents.

### REINSURANCE CEDED

AEGON Spain has both proportional and non-proportional reinsurance protection, primarily for fire and general liability insurance. In line with AEGON's policy, AEGON Spain's reinsurers are generally at least A-rated by Standard & Poor's.





## AEGON ASIA

### TAIWAN

#### GENERAL HISTORY

**AEGON Life Insurance (Taiwan) Inc. is a life insurance company that was formed in 2001 to conduct life insurance business in the Republic of China. AEGON Taiwan's operations began in 1994 as a branch office of Life Investors Insurance Company of America, an AEGON USA life insurance company. In 1998, AEGON Taiwan took over a block of business, which comprised of 55,000 policies from American Family Life Assurance Company Taiwan. In 1999, the Transamerica Taiwan branch was added as a result of AEGON's acquisition of Transamerica Corporation and its integration with the existing operation was completed in 2001. At the end of 2001, AEGON Taiwan acquired another block of business, which comprised of 57,000 policies of National Mutual Life Association of Australia, AXA's Taiwan life operation.**

#### PRODUCTS AND DISTRIBUTION

The product portfolio consists primarily of traditional life products, such as increasing whole life, female whole life, endowment life, term life, one-year term accident and health rider, and waiver of premium rider products. Variable universal life, introduced in April 2002, is one of the major products in the agency channel.

Female whole life is a unique product that offers life protection, female specific illness benefits and a survival benefit.

In 2003, new product initiatives included an updated version of the increasing whole life plan, targeted to the needs for both protection and savings, VIP Plus, a package of traditional whole life and variable universal life for retirement needs, and a single premium fixed-term variable product linked to structured notes, which competes with the term deposits of banks.

#### DISTRIBUTION CHANNELS

The agency channel consists of a network of over 500 full-time professional career agents located in 26 offices throughout Taiwan. Most of the business in the agency channel consists of traditional life business, while the variable universal life business accounts for the remainder.

In the brokerage channel, most of the business consists of increasing whole life business and is written by independent agents.

In the bancassurance channel, most of the business consists of increasing whole life business. A single premium structured notes product was launched in the 4th quarter of 2003.

Distribution through the brokerage and bancassurance channels has resulted in substantial growth in new business volumes. In 2003, brokerage and banks together accounted for approximately 90% of AEGON Taiwan's total new business premiums.

In the group business sector, AEGON Taiwan provides protection through yearly renewable life, accidental or medical business to employees of its corporate clients.

### CHINA

#### GENERAL HISTORY

**After a 12-month preparatory period, AEGON's business took a huge step forward in mainland China when AEGON-CNOOC Life Insurance Company China, a 50/50 joint venture with China National Offshore Oil Corporation, started its operations in May 2003.**

#### PRODUCTS AND DISTRIBUTION

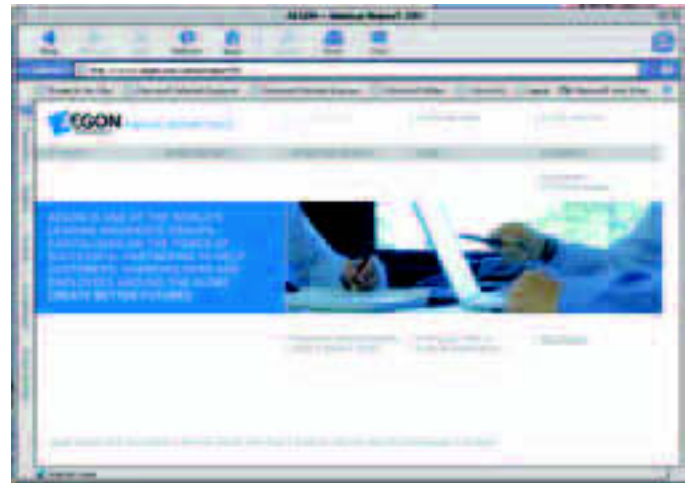
The SARS outbreak in China in early 2003 did not delay the opening of business. AEGON-CNOOC launched 13 basic products and 8 riders to the markets, including whole life, endowment, dread disease, accidental death and dismemberment, and surgical indemnity. These are all traditional life products sold through various channels. AEGON-CNOOC also launched a SARS product, SARS Guard, to meet customer demand.

Although the main distribution channel in the local market is the agency channel, AEGON-CNOOC adopted a multi-channel strategy, which includes the agency and bancassurance channels, and direct marketing and telemarketing.

The market potential of China has attracted many major insurers to China. Most major international insurance companies are focusing on selling their products through agency and bancassurance channels. AEGON-CNOOC has leveraged AEGON's experience in other distribution channels as well.

## AEGON AROUND THE WORLD

In addition to the annual report, AEGON publishes the historical data booklet 1993-2003, which provides further information and trend data over an 11-year period. Both publications are available on AEGON's corporate website, which contains investor information and press releases in browsable and downloadable formats.



[www.aegon.com/annualreport03](http://www.aegon.com/annualreport03)



# CORPORATE GOVERNANCE

AEGON IS COMMITTED TO THE HIGHEST  
STANDARDS OF TRANSPARANCY

**Since AEGON was formed through the merger between AGO Holding N.V. and Ennia N.V. in 1983, it has voluntarily applied the 'large company regime' of the Dutch corporate code. However, on May 9, 2003, AEGON's shareholders approved certain changes to AEGON's corporate governance structure and AEGON's relationship with its major shareholder, Vereniging AEGON (Association AEGON), in an extraordinary General Meeting of Shareholders. AEGON's Articles of Incorporation were subsequently amended on May 26, 2003. The changes have increased the authority of AEGON's common shareholders and leaves behind a corporate governance structure that dates back to a time when AEGON was mainly active in the Netherlands. AEGON believes that this change is consistent with emerging global best practices in corporate governance.**

As a public company under Dutch law, AEGON N.V. is governed by three corporate bodies: the General Meeting of Shareholders, the Executive Board and the Supervisory Board.

### GENERAL MEETING OF SHAREHOLDERS

A General Meeting of Shareholders is held at least once a year to discuss and resolve on subjects including the adoption of the annual accounts, the approval of dividends and any appointments to the Executive Board and the Supervisory Board. Meetings are convened by public notice.

Extraordinary General Meetings of Shareholders may be convened by the Supervisory Board or the Executive Board whenever deemed necessary. In addition, shareholders representing at least 10% of the outstanding share capital may request the Supervisory Board and the Executive Board to convene an extraordinary General Meeting of Shareholders, specifying the business to be discussed.

In accordance with the Articles of Incorporation, requests to add subjects to the agenda of a General Meeting of Shareholders made by shareholders representing at least 0.1% of the issued common shares will generally be honored.

Every shareholder is entitled to attend the General Meeting of Shareholders and to speak and vote in the meeting, either in person or by proxy granted in writing, provided that is complied with the applicable statutory provisions for providing of evidence of shareholders' status or notification of the intention to attend the meeting. When convening a General Meeting of Shareholders, the Executive Board can set a record date for determining the entitlement of shareholders to attend and vote at the General Meeting.

As a participant of 'Stichting Communicatiekanaal Aandeelhouders' (a Dutch foundation with the purpose of enhancing communication with and participation of shareholders

at General Meetings) AEGON welcomes the possibility of voting by proxy. Moreover, proxies are solicited from New York registered shareholders in accordance with US practice.

At the General Meeting of Shareholders each share is entitled to one vote; however, the holder of preferred shares, Vereniging AEGON, is entitled to cast 2.08 votes per preferred share in the event of a 'special cause' and limited to a period of six months per 'special cause'. In this respect reference is made to the section on Vereniging AEGON in this annual report on pages 143 and 144.

At the General Meeting of Shareholders all resolutions are adopted by an absolute majority of the valid votes, unless a greater majority is required by law or by the Articles of Incorporation.

### EXECUTIVE BOARD

The Executive Board, as a body, is charged with the management of the company, each member having specific areas of interest within an allocation of duties. The number of the Executive Board members and the terms of employment of these members are determined by the Supervisory Board. Members of the Executive Board can retire at the age of 60 and must retire at the age of 62. The Articles of Incorporation require the Executive Board to obtain the prior approval of the Supervisory Board for a number of resolutions. The Supervisory Board may subject further resolutions of the Executive Board to its prior approval.

### SUPERVISORY BOARD

The supervision of the management of the Executive Board and the general course of affairs of the company and the business connected with it is entrusted to the Supervisory Board, acting as a body with collective responsibility and accountability. The Supervisory Board also assists the Executive Board by giving advice. In performing their duties the Supervisory Board members shall act in accordance with the interests of the company and its business.

The Supervisory Board currently consists of nine non-executive members, one of whom is a former member of the Executive Board. Specific issues are dealt with and prepared in committees from among the members of the Supervisory Board. With a view to a balanced composition of the Supervisory Board a profile has been drawn up, outlining the required qualifications of its members. Upon reaching the age of 70, a member of the Supervisory Board is no longer eligible for reappointment. The remuneration of the members of the Supervisory Board is fixed by the General Meeting of Shareholders.



**In December 2003, the final version of a new Dutch Corporate Governance Code was adopted. The code is titled: The Dutch Corporate Governance Code. Principles of good corporate governance and best practice provisions. The Dutch Corporate Governance Code was prepared by a committee instituted for this purpose by the Minister of Finance and the Minister of Economic Affairs whose members represented a number of leading organizations from the Dutch business community. The committee was chaired by Mr. Morris Tabaksblat, who is also the chairman of AEGON's Supervisory Board.**

The purpose of the code is to reflect the latest generally held views on good corporate governance in the Netherlands. These views have been expressed in principles of good corporate governance as well as more concrete best practice provisions through which the principles are applied. The code thus purports to provide Dutch listed companies a guide to improving their corporate governance.

The code came into effect on January 1, 2004. In accordance with its terms, the code requires a Dutch listed company to formally report on its application of the code in its annual report over the financial year 2004. The report should also serve as the basis for a discussion on this subject in the General Meeting of Shareholders to be held in 2005.

### AEGON AND CORPORATE GOVERNANCE

AEGON has welcomed the institution of the Corporate Governance Committee and has actively participated in the discussions within the Dutch business community that have accompanied the preparation and publication of the code.

AEGON endorses the code and the principles of good corporate governance included therein. AEGON intends to use the code and the principles contained therein to continue and intensify its ongoing discussions with its stakeholders on corporate governance with the view to bringing its corporate governance standards in compliance with the code.

Immediately subsequent to the publication of the definitive Dutch Corporate Governance Code AEGON has initiated a review process aimed at implementing the code in the company's corporate governance. In line with the recommendations of the code, the current chapter gives an overview specifically indicating where its corporate governance is already compliant with the code. To the extent that AEGON does not fully comply with best practice provisions of the Dutch Corporate Governance Code, the reasons therefore are explained and the actions the Supervisory Board and the Executive Board contemplate taking are set out.

This chapter will be discussed as a separate item during the annual General Meeting of Shareholders to be held on April 22, 2004.

Whilst not all principles and best practice provisions of the Dutch Corporate Governance code are cited, the discussion set forth below closely follows the structure of the Dutch Corporate Governance Code. Where appropriate the headings of the chapters and paragraphs of the Dutch Corporate Governance Code have been included for easy reference in addition to references to the individual clauses.

### IMPLEMENTING THE CORPORATE GOVERNANCE CODE

#### COMPLIANCE WITH AND ENFORCEMENT OF THE CODE

The Executive Board and the Supervisory Board will continue to take responsibility for the corporate governance structure of AEGON. The paragraphs in the annual report dealing with corporate governance already customarily included are expanded. Starting with the 2004 annual report, the annual reports will include a separate chapter describing AEGON's application of the principles and best practice provisions of the corporate governance code. [I. Principle; I.1]

Each time a substantial change in the corporate governance structure of the company is contemplated, the compliance of AEGON with the code shall be submitted to the General Meeting of Shareholders for discussion under a separate agenda item. [I.2]

### EXECUTIVE BOARD

The current members of the Executive Board are appointed for an indefinite term. Giving due regard to the existing employment positions of the individual members, the Supervisory Board intends to investigate whether these employment positions can be reconciled with the best practice provision to limit the term in office of members of the Executive Board to (consecutive) four year periods. The Supervisory Board intends to limit the term in office of members of the Executive Board to (consecutive) four year periods.

In accordance with past practice within AEGON, the Executive Board will submit to the Supervisory Board for its consideration and approval the operational and financial objectives of AEGON, the strategy to be used to achieve these objectives, as well as the parameters that are applied in relation to the strategy (including the financial ratios and capital adequacy levels). A summary hereof will continue to form part of AEGON's annual reports. [II.1.2]

In 2003, AEGON set up the Group Risk and Capital Committee at group level. This is in addition to the pre-existing risk management systems set up at country unit level. The objectives of the Group Risk and Capital Committee include monitoring AEGON's overall risk exposures, making recommendations and overseeing remedial action where exposures are deemed excessive. Moreover, this committee is tasked with ensuring that risks are well measured and managed within the country units. The Group Risk and Capital Committee regularly reports to the Executive Board and the Supervisory Board. In the annual report, the Executive Board shall comment on the adequacy and effectiveness of its internal risk management and control systems also describing any significant changes and improvements that are contemplated. [II.1.3; II.1.4]

In 2002, AEGON has adopted a Code of Conduct at group level. The Code of Conduct is monitored and implemented by a taskforce reporting directly to the Executive Board. This is in addition to the pre-existing Codes of Conduct adopted earlier by the majority of AEGON's country units. The Code of Conduct includes appropriate whistleblower provisions, which give employees the ability to report on suspected irregularities without jeopardizing their positions. More detailed rules and regulations regarding the reporting of irregularities are being developed. Serious violations of the Code of Conduct, as well as any alleged irregularities concerning the functioning of Executive Board members are reported directly to the chairman of the Supervisory Board. The Code of Conduct of AEGON N.V. is posted on its website [www.aegon.com](http://www.aegon.com). [II.1.3; II.1.6]

AEGON's annual report includes information about the most important external factors and variables influencing the results of the company. These sensitivity analyses customarily reported on in AEGON's annual report include the sensitivity to interest rates, equity and real estate markets, long-term assumptions of AEGON and currency markets. The Executive Board and Supervisory Board will continue to consider the publication of additional sensitivity analyses if and when appropriate. [II.1.5]

None of the members of the Executive Board are a member of the Supervisory Board of more than one Dutch listed company nor are any of them chairman of the Supervisory Board of a listed company. Any appointment of members of the Executive Board as a supervisory or non-executive director of another listed company are subject to the prior approval of the Supervisory Board. The Executive Board and the Supervisory Board have agreed that members of the Executive Board intending to accept any other important position will notify the Supervisory Board prior to acceptance of such position. [II.1.7]

### REMUNERATION

In 2003, the Supervisory Board has on the advice of the Compensation Committee made amendments to the Remuneration Policy, which amendments came into effect on January 1, 2004. This revised Remuneration Policy will be

submitted to the General Meeting of Shareholders on April 22, 2004 and, if adopted, be in place for a period of three years.

AEGON places a high importance on attracting and retaining qualified directors and personnel, whilst safeguarding and promoting AEGON's medium- and long-term interests. The Remuneration Policy for members of the Executive Board is reflective thereof. It is designed to support AEGON's strategy for value creation and shareholder alignment, as well as the focus on performance and business results. In addition, it offers an incentive for board members through performance-linked pay, reflecting both their individual role as well as the collective responsibilities of the Executive Board as a whole. The Remuneration Policy also takes into consideration compensation levels in relevant reference markets and segments and corporate governance guidelines. [II.2]

The Remuneration Policy for the members of the Executive Board includes fixed and variable components. For the variable components, the Supervisory Board has set clear and measurable criteria including performance of the AEGON share price and the development of AEGON's earnings per share. For an overview of the Remuneration Policy for the Executive Board, please refer to page 71 and following.

The Remuneration Policy also includes a plan for members of the Executive Board to be remunerated partly in stock options or stock appreciation rights. If members of the Executive Board are entitled to stock options and stock appreciation rights, these options and rights are granted solely by reference to the AEGON share price on Euronext Amsterdam at the close of trading on the date of granting thereof. The terms under which stock options and stock appreciation rights are issued shall not be altered during the term thereof except for technical alterations in accordance with market practice in events such as a stock split, mergers and acquisitions, share issuances and (super)dividends. [II.2.4; II.2.5]

The Supervisory Board will implement further changes to the Remuneration Policy with regard to severance payments payable to new members of the Executive Board. These changes will include a maximum severance payment in the event of dismissal of the fixed component of the relevant member's salary of one year, or two years in cases where a maximum of one year's salary would be manifestly unreasonable for a member of the Executive Board who is dismissed in his first term of office. In addition, whilst giving due regard to the existing employment agreements with the current members of the Executive Board and the fact that employment conditions in the United States are different, the Supervisory Board intends to investigate whether the existing arrangements with regard to severance payments with current members of the Executive Board can be reconciled with the Dutch Corporate Governance Code provision purporting to limit the severance payment in the event of dismissal to the maximum indicated by the code. [II.2.7]



As consistently disclosed in AEGON's annual reports and in the normal course of the business, members of the Executive Board of AEGON are entitled to mortgage loans under the terms applicable to personnel as a whole, subject to the prior approval of the Supervisory Board. [II.2.8]

#### **DETERMINATION AND DISCLOSURE OF REMUNERATION**

The Remuneration Policy will be submitted to the General Meeting of Shareholders to be held on April 22, 2004 for adoption. Any future material changes to the Remuneration Policy regarding members of the Executive Board will also be submitted to the General Meeting of Shareholders for adoption. [Principle above II.2.9; III.5.10]

In its remuneration report, the Supervisory Board will account for the manner in which the Remuneration Policy regarding members of the Executive Board has been applied on the basis of the report of the Compensation Committee of the Supervisory Board. Any special remuneration as well as any severance payments shall be included and explained in the remuneration report. In addition, each year the annual report provides an overview of the then current Remuneration Policy for the near future. The remuneration report will be posted on AEGON's website [www.aegon.com](http://www.aegon.com). [II.2.9; II.2.10; II.2.13]

In accordance with existing practice, the remuneration of the individual members of the Executive Board will be determined by the Supervisory Board within the scope of the adopted Remuneration Policy. Upon conclusion of a contract with a new member of the Executive Board, the main elements of the employment contract with this member shall be made public. [Principle above II.2.9; II.2.11; II.2.12]

In AEGON's annual accounts the value of options and stock appreciation rights, if any, granted to the Executive Board and personnel are being recognized with an indication as to how this value is determined. [II.2.14]

#### **CONFLICTS OF INTEREST**

Compiled in 2002, after a company-wide collaborative effort, AEGON's Code of Conduct is a code of ethics that addresses conflicts of interest that may occur between AEGON and its employees including the members of the Executive Board. The Code of Conduct is available on AEGON's website [www.aegon.com](http://www.aegon.com).

More detailed regulations regarding conflicts of interest between members of the Executive Board and AEGON are included in the Rules and Regulations of the Executive Board. Subject to making some technical refinements thereto the Rules and Regulations of the Executive Board are compliant with the Dutch Corporate Governance Code. [II.3; II.3.1; II.3.2; II.3.3; II.3.4]

However, under the provisions of the Dutch Corporate Governance Code, the membership of Messrs. Shepard and Streppel of the executive committee of Vereniging AEGON may give rise to deemed conflicts of interest. The Supervisory Board and the Executive Board will consider how any such deemed conflicts of interest should be addressed.

#### **COMPLIANCE**

AEGON has detailed regulations applicable to members of the Executive Board and the Supervisory Board concerning the ownership of and transactions in securities, other than AEGON stock. These regulations are in conformity with the regulations prescribed by the Dutch regulators and shall be further refined so as to comply with the more detailed best practice provisions of the Dutch Corporate Governance Code. Compliance with these regulations is supervised by the Group Compliance Officer, who acts alongside compliance officers appointed by country units and the business units. [II.2.6; III.7.2; III.7.3]

#### **SUPERVISORY BOARD**

##### **ROLE AND PROCEDURE**

The duties of the Supervisory Board are the supervision of the management by the Executive Board and the general course of affairs of AEGON and the business connected with it. In particular, this includes supervision of the achievement of AEGON's stated objectives, corporate strategy, risk management, the financial reporting process (also in light of the United States' Sarbanes-Oxley legislation) and general compliance with legislation and regulations. The Supervisory Board is also responsible for deciding on how to resolve conflicts of interest between members of the Executive Board, members of the Supervisory Board, major shareholders and the independent auditor on the one hand, and AEGON on the other hand. The Supervisory Board assists the Executive Board by giving advice. In performing their duties, the members of the Supervisory Board are required to act in accordance with the interests of AEGON and its affiliated enterprises. Pursuant to AEGON's Articles of Incorporation and the Rules and Regulations of the Supervisory Board, the Supervisory Board is empowered to obtain all information they deem necessary for the performance of their duties, which includes the right to obtain information from officers and external experts of the company. [III.1; III.1.6; III.1.8; III.1.9; III.6]

The Rules and Regulations of the Supervisory Board contain provisions regarding the division of duties within the Supervisory Board and its internal procedures and contacts with the Executive Board, as well as with the General Meeting of Shareholders. Subject to further refinements in the context of implementing the Dutch Corporate Governance Code being made, these regulations shall be posted on AEGON's website. [III.1.1]

The Supervisory Board shall continue its existing practice to include a detailed report of its activities in the relevant financial year in each annual report. In its report it will include the information prescribed in the Dutch Corporate Governance Code. The report will include appropriate reference to the subjects discussed within the Supervisory Board during the relevant year. [III.1.2; III.1.3; III.1.5; III.1.7; III.1.8]

### INDEPENDENCE

The current composition of the Supervisory Board is in compliance with the best practice provisions of the Dutch Corporate Governance Code as well as the provisions of the United States' Sarbanes-Oxley Act 2002 regarding the independence of supervisory directors. The sole member that does not qualify as 'independent' within the meaning of these provisions is Mr. K.J. Storm who was, immediately prior to his appointment as a member of the Supervisory Board in 2002, chairman of the Executive Board. [III.2; III.2.1; III.2.2]

### EXPERTISE AND COMPOSITION

Since the most recent amendment of AEGON's Articles of Incorporation in May 2003, members of the Supervisory Board are appointed by the General Meeting of Shareholders. For the purpose of making nominations for the Supervisory Board, including any nominations for reappointment, the Supervisory Board has drawn up a profile that specifies the desired composition and competences of the Supervisory Board as a whole as well as those of the individual members. This profile also reflects the detailed composition requirements of the Dutch Corporate Governance Code. [III.3; III.3.1; III.3.2]

Under the composition profile, it is expected that each member of the Supervisory Board shall be capable of assessing the broad outline of the overall policy, in addition to the specific expertise required for the role designated to the individual member. The profile also takes into account the nature of the insurance business of AEGON, the activities of the Supervisory Board and the background of the Supervisory Board members and is designed to ensure that the Supervisory Board as a whole is capable of the proper performance of its duties. The composition profile will be made available on AEGON's website where shareholders and investors can also find the prescribed information about each member of the Supervisory Board as well as the retirement schedule. [III.1.3; III.1.7; III.3.1; III.3.6]

AEGON offers its newly appointed members of the Supervisory Board an introduction program covering the general financial affairs of AEGON, general aspects of the insurance industry as well as aspects unique to AEGON in addition to general legal affairs of the group. The Supervisory Board regularly discusses whether there are any areas where its members require further training. [III.3.3]

Several members of the Supervisory Board also serve as a member of Supervisory Boards of other Dutch listed companies. The Supervisory Board has concluded that none of these memberships unduly or negatively influences the proper performance of the relevant members of their duties as member of the Supervisory Board. Mr. Tabaksblat, the chairman of the Supervisory Board, as well as Mr. Storm currently hold more than the maximum number of Supervisory Board positions with Dutch listed companies (including chairmanships) set forth in the Dutch Corporate Governance Code. Mr. Storm has advised the Supervisory Board that he expects to be compliant with the relevant best practice provision before the end of 2004. Mr. Tabaksblat has indicated

he will not be available for reappointment upon the end of his current term in 2005. [III.3.4]

The Supervisory Board intends to make proposals to provide that no member can serve on AEGON's Supervisory Board for more than three four-year terms. [III.3.5]

Pursuant to the Rules and Regulations of the Supervisory Board a member of the Supervisory Board shall resign if the Supervisory Board has resolved that such a member is not longer fit to function due to inadequate performance, fundamental differences of opinion or other important circumstances. [III.1.4]

### ROLE OF THE CHAIRMAN OF THE SUPERVISORY BOARD AND THE COMPANY SECRETARY

The chairman of the Supervisory Board of AEGON is Mr. Tabaksblat. Mr. De Ruiter is vice-chairman. In accordance with the Rules and Regulations of the Supervisory Board, the chairman is responsible for overseeing the functioning of the Supervisory Board as a whole and its committees, for keeping close track of the flow of information to the Supervisory Board and for the consultation and decision-making processes within the Supervisory Board. The chairman is also responsible for initiating the assessment of the individual members of the Supervisory Board and the Executive Board and for maintaining appropriate contact with the Executive Board and the Dutch Central Works Council. [III.4; III.4.1; III.4.2]

The duties of the company secretary include assisting the Supervisory Board. In particular, the company secretary is responsible for the correct application of the statutory obligations under the Articles of Incorporation and the Rules and Regulations of the Supervisory Board. The appointment of the company secretary is subject to the approval of the Supervisory Board. [III.4.3]

### COMPOSITION AND ROLE OF THE KEY COMMITTEES OF THE SUPERVISORY BOARD

In compliance with the applicable provisions of the United States' Sarbanes-Oxley Act 2002 and the Dutch Corporate Governance Code, the Supervisory Board has in place four standing committees from among its members. These committees are: the Audit Committee, the Compensation Committee, the Nominating Committee and the Strategy Committee. Each committee reports its findings to the Supervisory Board and these findings are discussed in the plenary meetings of the Supervisory Board. [III.5; III.5.3]

Each of the committees of the Supervisory Board has a charter in which the duties of the committee, the composition and its internal procedures are laid down. Upon certain technical changes triggered by the Dutch Corporate Governance Code being implemented, the committee charters shall be published on AEGON's website. [III.5.1]

Annually, the report of the Supervisory Board (which is part of the annual report) includes information on the activities of each of the committees. Such reports also list the members of each committee. [III.5.2]

#### **AUDIT COMMITTEE**

The Audit Committee, established in 1983, is appointed by the Supervisory Board to assist the Supervisory Board in monitoring (1) the integrity of the financial statements of AEGON, (2) the independent auditor's qualifications and independence, (3) the performance of AEGON's internal audit function and the independent auditor, and (4) the compliance by AEGON with legal and regulatory requirements, as well as advising on and monitoring the financing of AEGON and its finance related strategies. The Audit Committee is chaired by Mr. Eustace. Meetings of the Audit Committee are customarily attended by the Executive Board members, the director of the Group Finance Department and the independent auditor. In addition, at least once per year (and more often as necessary) the Audit Committee meets with the independent auditor without members of the Executive Board being present. [III.5.4; III.5.5; III.5.6; III.5.7; III.5.8; III.5.9]

#### **COMPENSATION COMMITTEE**

The purpose of the Compensation Committee, established in 1989, is to design, develop, implement and review the compensation and terms of employment of members of the Executive Board and of the fees of the members of the Supervisory Board to be adopted by the General Meeting of Shareholders. The Compensation Committee makes its recommendations to the Supervisory Board. The Compensation Committee is chaired by Mr. De Wit. Mr. Van Wijk is the sole member of the Compensation Committee who is also a member of the management board of another Dutch listed company. [III.5.10; III.5.11; III.5.12]

#### **NOMINATING COMMITTEE**

The purpose of the Nominating Committee, established in 1993, is to advise the Supervisory Board on candidates for the Supervisory Board for a first appointment to fill a vacancy as well as on members for the Supervisory Board for possible reappointment after each four-year term. Any such proposals are based on the profile for the Supervisory Board drawn up for this purpose. In addition, the Nominating Committee advises on and proposes to the Supervisory Board candidates to be nominated for appointment to the Executive Board as a member or as the chairman. On a regular basis the Nominating Committee reviews the functioning of the individual members of the Executive Board and the Supervisory Board as well as the selection criteria for senior management within the AEGON Group. The Nominating Committee is chaired by Mr. Tabaksblat. [III.5.13]

#### **STRATEGY COMMITTEE**

The Strategy Committee, established by the Supervisory Board in 2002, has the task of reviewing the major features of the strategy proposed by the Executive Board and preparing the presentation of the strategy to the Supervisory Board. The Strategy Committee also considers options and alternative avenues with regard to the strategy in addition to considering

the material aspects relating to the implementation of the agreed strategy. Finally, it is acting as a consultative body for the Executive Board with regard to its strategy. The Strategy Committee is chaired by Mr. Tabaksblat.

#### **CONFLICTS OF INTEREST**

Rules regarding conflicts of interest applicable to members of the Supervisory Board are included in the Rules and Regulations of the Supervisory Board. These rules are compliant with the relevant provisions of the Dutch Corporate Governance Code and will be posted on AEGON's website [www.aegon.com](http://www.aegon.com). [III.6; III.6.1; III.6.2; III.6.3; III.6.4; III.6.5]

#### **REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD**

The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders and is not dependent on the profit of AEGON. The members of the Supervisory Board do not receive any shares or rights to shares by way of remuneration. Members of the Supervisory Board are not eligible to receive any personal loans, guarantees or similar benefits. [III.7; III.7.1; III.7.4]

#### **THE SHAREHOLDERS AND GENERAL MEETING OF SHAREHOLDERS**

##### **POWERS**

AEGON places a high level of importance on dialogue with its shareholders. For this purpose, AEGON has an active department on group level called Group Corporate Affairs and Investor Relations. One of the key stages for the dialogue with its shareholders is the General Meeting of Shareholders. AEGON has traditionally made an effort to maximize shareholder participation by allowing proxy voting, both in the United States (where AEGON has a significant shareholder base) and in the Netherlands through Stichting Communicatiekanaal Aandeelhouders. [IV.1]

The Supervisory Board and Executive Boards welcome increased shareholder participation. They intend to make proposals to the General Meeting of Shareholders in 2005 to make further amendments to the Articles of Incorporation with a view to subjecting major changes in the identity of character of AEGON or its business to the approval of the General Meeting of Shareholders. [IV.1]

The Articles of Incorporation of AEGON currently provide that the General Meeting of Shareholders may cancel the binding character of binding nominations for the appointment of new members to the Supervisory Board and the Executive Board with a majority of two-thirds of the votes cast representing at least one half of the issued capital. In addition, members of the Executive Board and members of the Supervisory Board can only be dismissed by the General Meeting of Shareholders with the same qualified majority (except if proposed by the Supervisory Board). These provisions were included at the time of the overall review of AEGON's corporate governance and were adopted at the

extraordinary General Meeting of Shareholders in May, 2003. This qualified majority requirement was included in order to give AEGON protection against unfriendly actions by, for example, a hostile bidder. The effects of this qualified majority are mitigated by the fact that in practice nominations will in most cases not be binding, thus allowing the shareholders to decide on the nomination with a simple majority. The Supervisory Board and the Executive Board intend to evaluate the provisions in AEGON's Articles of Incorporation containing the qualified majority requirements in light of the provisions of the Dutch Corporate Governance Code. [IV.1.1; IV.3.9]

AEGON has preferred shares class A and preferred shares class B, all of which are held by Vereniging AEGON. The preferred shares class A have been restructured in September 2002 and May 2003 with the effect that the capital contribution made on these shares is reflective of the market value of AEGON's common shares at that time. [IV.1.2]

Currently, Vereniging AEGON holds 11,100,000 preferred shares class B, representing approximately 0.6% of voting shares under usual circumstances. The 1983 Merger Agreement (as amended) provides that additional preferred shares class B are to be issued by AEGON to Vereniging AEGON at the option of Vereniging AEGON in order to prevent Vereniging AEGON's voting power from being diluted as a result of new issuances of common shares. In addition, AEGON and Vereniging AEGON have entered into a preferred shares voting rights agreement. Pursuant to this agreement, voting power attached to the preferred shares classes A and B is under normal circumstances limited to one vote per share. The preferred shares voting rights agreement allows Vereniging AEGON to exercise the full voting power on its preferred shares (approximately 2.09 votes per preferred share) in the event of a 'special cause' (as defined in the preferred shares voting rights agreement) for up to six months (as further discussed on page 143 and following). [IV.1.2]

As a result of the foregoing and certain qualified majorities specified in AEGON's Articles of Incorporation, in the event of a 'special cause' (as referred to above), for a period of six months Vereniging AEGON can effectively be in a position to temporarily block any unfriendly actions by a hostile bidder or others. The Supervisory Board and the Executive Board take the view that this arrangement is in accordance with the principles that the Dutch Corporate Governance Committee has recommended to the legislator to be taken into consideration when drafting a law on anti-takeover measures. [IV.1.1; IV.1.2; IV.3.9; Account of the Committee's work]

The Executive Board intends to make amendments to the Rules and Regulations of the Executive Board to the effect that in the event of a serious private bid for a business unit or a participating interest in excess of the threshold expected to be set in the Dutch Civil Code the Executive Board will make public its position on the bid and its reasons for its position. [IV.1.3]

At the annual General Meeting of Shareholders in 2005, AEGON's policy on profit appropriation (additions to reserves and on dividends) shall be dealt with and explained as a separate item on the agenda of the annual General Meeting of Shareholders. Also, a resolution to pay a final dividend shall be dealt with as a separate item. [IV.1.4; IV.1.5]

Release from liability of the members of the Executive Board for their management and of the members of the Supervisory Board for their supervision will be separately voted upon in the annual General Meeting of Shareholders. [IV.1.6]

AEGON intends to continue its current practice providing for the determination of a registration date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders. [IV.1.7]

### PROVISION OF INFORMATION TO AND LOGISTICS OF THE GENERAL MEETING OF SHAREHOLDERS

AEGON attaches high importance to fair disclosure of information to its stakeholders and the financial markets in all relevant jurisdictions. The company applies the rules and regulations dealing with disclosure set by the various regulators and the stock exchanges on which we are listed. Meetings with shareholders, analysts and investors and press conferences are webcast on AEGON's website in real time so as to safeguard equal and timely access to information. Meetings will be announced by way of press releases. All presentations made on these occasions are posted on its website. In accordance with market practice, the company uses various press information services to distribute its press releases. [IV.3; IV.3.1]

All communications and filings are supervised by the Disclosure Committee instituted by AEGON in compliance with the United States' Sarbanes-Oxley legislation. These communications will be made available on a separate part of AEGON's website [www.aegon.com](http://www.aegon.com). [IV.3; IV.3.6]

AEGON refrains from any actions that may jeopardize the independence of analysts in relation to the company. Other than factually, analysts' reports and valuations (including earnings estimates) are not assessed, commented upon or corrected by AEGON in advance of their publication and AEGON pays no remuneration of whatever kind to any such analysts in the context of preparing such reports or the publication thereof. [IV.3.2; IV.3.3]

The Executive Board and the Supervisory Board will provide the General Meeting of Shareholders with all requested information, unless overriding interests of AEGON are better served by not providing the requested information. If such overriding interests are invoked, that will be substantiated. [IV.3.5]

AEGON uses shareholders' circulars to inform the shareholders about the facts and circumstances relevant to upcoming proposals. Shareholders' circulars may take the form of an appropriate written explanation to the agenda of the General Meeting of Shareholders. Shareholders' circulars are in any event published in those instances where shareholders' approval is prescribed (including delegations or authorizations requested from the General Meeting of Shareholders). [IV.3.7]

As a general rule, the report of the General Meeting of Shareholders shall be made available, on request, to the shareholders not later than three months after the meeting. Shareholders will be given three months to react to the report prior to its adoption in accordance with the Articles of Incorporation by the chairman of the General Meeting of Shareholders and the secretary appointed by the chairman for that purpose. The report will be posted on AEGON's website [www.aegon.com](http://www.aegon.com). [IV.3.8]

#### **RESPONSIBILITY OF INSTITUTIONAL INVESTORS**

In addition to AEGON's responsibility to its shareholders and other stakeholders, the company also is an institutional investor. As such, in deciding whether to exercise its rights as a shareholder of other listed companies AEGON acts primarily in the interest of its policyholders and other ultimate beneficiaries of its products whilst giving due regard to the responsibility to the ultimate beneficiaries and investors in the companies in which it has invested. [IV.4]

In compliance with local Codes of Conduct applicable to institutional investors, AEGON's country units in the United States and the United Kingdom have detailed policies in place in relation to their exercise of the voting rights attaching to the shares held by them. It is the intention of AEGON Nederland N.V. to publish on its Dutch website, [www.aegon.nl](http://www.aegon.nl), its existing policies regarding the exercise of the voting rights attaching to the shares held by AEGON Nederland N.V. in Dutch listed companies. In addition, starting in 2005 it is intended that a report on how this policy was implemented in any given financial year is published on the website of AEGON Nederland N.V. A record of whether, and if so, how AEGON Nederland N.V. has voted as shareholder in General Meetings of Shareholders of Dutch listed companies shall be published on its website. This record shall be updated at least on a quarterly basis. [IV.4.1; IV.4.2; IV.4.3]

#### **AUDIT OF THE FINANCIAL REPORTING AND THE POSITION OF THE INTERNAL AUDITOR FUNCTION AND THE INDEPENDENT AUDITOR**

##### **FINANCIAL REPORTING**

Following the adoption of the Sarbanes-Oxley Act by the United States Congress, AEGON undertook in 2002 and 2003 a thorough review of its internal procedures relating to the composition, preparation and publication of its financial reporting. The Executive Board is confident that the internal procedures set up for this purpose allow major financial information to be delivered to the Executive Board in an orderly and timely fashion. The Executive Board is receiving the financial information from the country units directly. The Supervisory Board, acting primarily through the Audit Committee, is supervising the compliance with these internal procedures and the external information. Specific regulations dealing with the internal control function have been documented in the charter of the Audit Committee and the attachments thereto. [V.1; V.1.1; V.1.2; V.1.3]

##### **ROLE, APPOINTMENT, REMUNERATION AND ASSESSMENT OF THE FUNCTIONING OF THE INDEPENDENT AUDITOR**

Based on its charter, the Audit Committee of the Supervisory Board has determined the extent of the involvement of the independent auditor in the preparation and publication of financial reports (other than the annual accounts) in addition to setting up a pre-approval procedure for any additional (non-audit) services that may be rendered by the independent auditor to the company. [V.2]

The independent auditor is yearly appointed by the shareholders at the annual General Meeting of Shareholders. The shareholders will be given the possibility to question the independent auditor at the General Meeting of Shareholders in relation to his statement on the fairness of the annual accounts. [V.2; V.2.1]

The Executive Board and the Audit Committee report annually to the Supervisory Board on their dealings with the independent auditor, particularly assessing its independence. At least every four years the Audit Committee and the Supervisory Board conduct a thorough assessment of the functioning of the independent auditor. The findings of this assessment will be shared with the General Meeting of Shareholders for the purposes of its deliberations on the annual appointment of the independent auditor. [V.2.2; V.2.3]

### INTERNAL AUDITOR FUNCTION

In 2003, AEGON has appointed an internal auditor on group level reporting directly to the Executive Board. This is in addition to the internal auditors that have been appointed on the level of AEGON's country units. The work schedule for the Group Internal Auditor was drawn up with involvement of the Audit Committee and the independent auditor. The findings of the internal auditor are made available to the Executive Board, the Audit Committee as well as the independent auditor. [V.3; V.3.1]

### RELATIONSHIP AND COMMUNICATION OF THE EXTERNAL AUDITOR WITH THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

The Supervisory Board meets with the independent auditor at least once a year on the occasion of the discussion of the annual accounts that are to be submitted for adoption to the General Meeting of Shareholders. As part of standing procedures, the independent auditor receives the information underlying the annual accounts and the quarterly figures and is given ample opportunity to respond to all information. [V.4; V.4.1]

Reports by the independent auditor of his findings in relation to the audit of the annual accounts are made to the Supervisory Board and the Executive Board simultaneously. [V.4]

The independent auditor may request the chairman of the Audit Committee to call a meeting of the Audit Committee. The independent auditor customarily attends the meetings of the Audit Committee. In accordance with applicable laws, the independent auditor reports on its activities to the Executive Board and the Supervisory Board, raising issues in relation to his audit that require the attention of management. Pursuant to the charter of the Audit Committee such issues include significant financial reporting issues and judgements made in connection with the preparation of the financial statements, including the quality of earnings, significant deviations between planned and actual performance, the selection or application of accounting principles (including any significant changes with respect thereto), any major issues as to the adequacy of its internal controls and any special steps adopted in light of material control deficiencies. [V.4.2; V.4.3]



## REMUNERATION POLICY

### COMPENSATION COMMITTEE

The Terms of Reference for the Compensation Committee are outlined in the Supervisory Board Rules and Regulations.

The Compensation Committee is responsible for the design, development, implementation and review of the Remuneration Policy that outlines the terms and conditions of employment of the CEO and the other members of the Executive Board and of the fees of the members of the Supervisory Board. The Committee makes its recommendations to the Supervisory Board. The Remuneration Policy as currently in place will be submitted to the General Meeting of Shareholders to be held on April 22, 2004 for adoption. Any subsequent material changes in the Remuneration Policy will be submitted to the annual General Meeting of Shareholders for adoption.

The Supervisory Board appoints at least three of its members to the committee, for a period of four years. The committee currently consists of Messrs. F. J. de Wit (chairman), H. de Ruiter (vice-chairman), W.F.C. Stevens and L.M. van Wijk.

The secretary to the Supervisory Board also acts as the secretary to the committee, whilst the Group Human Resources manager assists the committee as an internal advisor. The committee may also consult outside advisors for select expert subjects, such as market benchmark information and system validation.

The committee will meet at least once a year. It will report its findings and conclusions to the Supervisory Board and these are discussed in the plenary meetings of the Supervisory Board.

### REMUNERATION POLICY

The Remuneration Policy aims to create a reward structure that will allow the company to attract, retain and reward executives who will lead the continued growth, development and financial success of the company, as well as at providing those executives with a well-balanced and incentive compensation. This reward structure covers five elements: base salary, short-term incentive, long-term incentive, pension and other arrangements.

In December 2002, the Compensation Committee decided to review the total direct elements (base salary plus STI and LTI) of the Executive Board members' income, included in the Remuneration Policy, in order to strengthen the interdependence between their income and the results of the activities under their responsibility. This review took place during five meetings of the committee in 2003, having as main objective to revise the Remuneration Policy so as to better support AEGON's strategy for value creation and shareholder alignment by focusing on performance and business results. At the same time, the Remuneration Policy should continue to offer an incentive through performance-linked pay, reflecting both the members' individual role as well as their collective responsibilities. In reviewing the Remuneration Policy, the committee also considered recent trends and developments in reference markets. The revisions in the Remuneration Policy took effect on January 1, 2004. In view of the provisions of the

Dutch Corporate Governance Code, the Supervisory Board has subsequently decided to submit the Remuneration Policy, as revised, to the General Meeting of Shareholders for adoption. Upon adoption, the Remuneration Policy will be in effect for a three-year period, starting January 1, 2004. The amendments to the Remuneration Policy have not lead to a higher total direct compensation 'at target' performance as compared to the old structure. Even a performance 'over target' will not deliver a compensation to the level of the past.

In implementing the Dutch Corporate Governance Code, due regard will be given to existing employment agreements with individual members of the Executive Board.

### BASE SALARY POLICY

Base salary levels are based on the requirements, responsibilities and risks of a position as member of the Executive Board. The committee will ensure that base salary levels are realistic and competitive.

In setting the appropriate levels, the committee has taken into account individual roles and responsibilities of the Executive Board members. As a consequence, it will distinguish between the base salary levels for respectively the CEO, CFO and the other members.

Annually the committee will review the levels, considering circumstances that would justify adjustment, such as fundamental changes in the business environment or in the individual responsibilities.

The committee will also consider benchmark information provided by (outside) advisors. In that regard, the European Insurance Market will serve as the reference for European Executive Board members. For US Board members, the US Insurance Market is used as the appropriate reference. For all, base salary is reflected against the median market level.

The individual salaries of the Dutch Executive Board members do follow the standard Dutch Collective Labor Agreement.

#### 2003

Mr. Shepard's annual base salary (USD 1,000,000) was not increased when he was appointed chairman of the Executive Board in April 2002, and did not change in 2003 either. The annual base salaries for 2003 of Messrs. Streppel and Van der Werf were increased as per January 1, 2003, from EUR 495,000 to EUR 650,000 and from EUR 495,000 to EUR 550,000 respectively whilst Mr. Wynaendts' base salary was set at EUR 550,000 per annum as per his appointment to the Executive Board on April 17, 2003.

#### 2004

The base salaries of the Executive Board members were not changed on January 1, 2004.

## REMUNERATION POLICY

### SHORT-TERM INCENTIVE (STI)

#### POLICY

Short-term incentive (STI) bonuses aim to reward Executive Board members for achieving pre-set targets. Those targets will reflect their responsibilities and will be set annually to ensure that business priorities are followed and the targets remain ambitious, dynamic and realistic.

#### 2002, PAYABLE IN 2003

Under the 2002 STI Plan, all Executive Board members were eligible to a bonus for 2002 up to a maximum of 150% of their base salary in that year, to be paid in 2003.

Through this plan Mr. Shepard could earn USD 50,000 per percent point increase in 2002's earnings per share. The other members could earn EUR 31,765 per percent point increase in the preceding year earnings per share over the rate of euro inflation. At the choice of the Executive Board members concerned, half of the bonus may be paid in AEGON shares with a three-years holding period. After this three-year period the Executive Board members will be entitled to bonus shares, provided that they are still employed by AEGON. The number of bonus shares to which the members are entitled at that time will be based on performance, on the basis of EPS growth above inflation in the preceding three years, according to the following table.

3-year average EPS growth (over inflation)	Share matching %
< 5%	0
5 - 10%	25%
10 - 12%	50%
12 - 14%	75%
> 14%	100%

However, since the earnings per share in the financial year 2002 did not increase, no bonuses over 2002 were paid in 2003 under this STI Plan.

#### 2003, TO BE GRANTED IN 2004

The 2003 STI Plan was the same as that in 2002. Through this plan Mr. Shepard could earn USD 50,000 per percent point increase in the preceding year earnings per share and the other members EUR 32,432 per percent point increase in the preceding year earnings per share over the rate of euro inflation. The amounts for STI 2003 will be determined after the annual General Meeting of Shareholders has adopted the annual accounts 2003. All the members of the Executive Board have opted for payment of half of the STI bonus amount in AEGON shares.

#### 2004, TO BE GRANTED IN 2005

The STI Plan, comprised in the Remuneration Policy, determines that a short-term bonus will be paid only if value is created for shareholders, i.e. only after a positive value of new business (VNB), as defined in AEGON's Embedded Value Report, is realized. For Messrs. Shepard and Streppel group VNB will apply; for Messrs. Van der Werf and Wynaendts, the VNB for their specific business area will be taken into account. Provided the relevant VNB is positive, then the actual level of income before tax adjusted for capital gains and losses on equities and real estate will determine the level of the bonus payout. The income before tax adjusted for capital gains and losses on equities and real estate target will be calculated based on a rolling, three-year average, increased by 2.5% to reflect an estimated rate of inflation. Bonus payout for Messrs. Shepard and Streppel solely depend on AEGON's income before tax adjusted for capital gains and losses on equities and real estate. For Messrs. Van der Werf and Wynaendts the bonus is based on the income before tax adjusted for capital gains and losses on equities and real estate of the country unit(s) under their responsibility (60%), and on AEGON's income before tax adjusted for capital gains and losses on equities and real estate (40%).

#### TARGET STI BONUS LEVELS AS FROM JANUARY 1, 2004

	Target (last 3-years' average) (% of base salary)	Maximum (% of base salary)
Shepard	118%	189%
Streppel	50%	80%
Van der Werf	80%	125%
Wynaendts	80%	125%

The target levels vary due to differences in responsibilities and base salary. Whilst Mr. Streppel's base salary is higher than Messrs. Van der Werf's and Wynaendts', their achievable bonuses are higher, reflecting their role value drivers for AEGON.

Annually the Committee will review the agreed parameters to ensure that they continue to provide the best reference. External experts will sign off all relevant VNB and income before tax adjusted for capital gains and losses on equities and real estate.

## LONG-TERM INCENTIVE (LTI)

The long-term incentive (LTI) Plan focuses on the company performance against a select peer group. The peer group comprises companies that are comparable in type of business, size and geographical presence. Additionally, those companies should be recognized as the most appropriate reference group by AEGON, as well as by analysts, shareholders and other stakeholders.

### 2002, GRANTED IN 2003

Under the 2002 LTI Plan the Executive Board members were eligible to receive a pre-determined number of stock options or stock appreciation rights (SARs), subject to three criteria:

1. Comparison of the AEGON share price with the share prices of a peer group of nine financial companies (ABN AMRO, AIG, Allianz, AXA, Fortis, Generali, ING, Prudential PLC and Zurich). The comparison is based on the share price performance over the preceding three years.
2. Should the AEGON share price performance achieve a top three position, each Executive Board member will receive 200,000 options. Should this share price performance finish in the middle group (of four companies) each Executive Board member will earn 100,000 options. Should the share price performance rank in the bottom group (three companies) 50,000 options will be granted.
3. In case earnings per share did not increase, no options will be granted.

Since earnings per share in the financial year 2002 did not increase, Executive Board members did not receive any stock options or SARs in 2003.

### 2003, TO BE GRANTED IN 2004

The 2003 LTI Plan was the same as that in 2002. The average AEGON share price performance compared with those of the peer group (based on the share price performance over 2001, 2002 and 2003) ranked in the bottom group as a result of which each Executive Board member will receive 50,000 SARs in March 2004, provided shareholders adopt the annual accounts for 2003, showing an increase of the earnings per share.

### 2004, TO BE GRANTED IN 2005

Reflecting recent trends and developments in reference markets and the desire to more distinctly link performance and compensation, the Remuneration Policy was revised to provide that as from January 2004, the total LTI value is a combination of performance options and performance shares, with a 50-50 split. Vesting of these rights will be based on the performance of AEGON, relative to a group of peer companies.

This peer group consists of, reflective of the criteria of comparability, Allianz, Aviva, AXA, Fortis, Generali, ING, Jefferson-Pilot, John Hancock Life Insurance, Lincoln National, Nationwide FS Inc. and Prudential PLC.

The LTI plan also defines a revised target performance zone. Performance relative to that zone will subsequently determine the LTI bonus for Executive Board members. The performance incentive zone starts at position eight. Once AEGON achieves this position, 50% of the grant will vest. At position six, 100% will vest. Should AEGON rank number one, 200% of the grant will vest.

### TARGET LTI AWARD LEVELS AS FROM JANUARY 1, 2004

	Target (LTI value - 100% basis) (% of base salary)
Shepard	95%
Streppel	60%
Van der Werf	60%
Wynaendts	60%

The Committee will monitor the peer group composition and the performance incentive zone to ensure that they continue to provide an appropriate reference. The first review will take place in 2006. Would those parameters no longer provide the appropriate reference, the Committee may decide to amend them. External experts will sign off all data used in the comparisons.

## REMUNERATION POLICY

### PENSION AND OTHER ARRANGEMENTS

Other elements of the reward structure of Executive Board members have not been revised in the Remuneration Policy.

The pension arrangements aim at creating a reliable retirement provision for Executive Board members that conform to market practice. The plan for the Dutch Executive Board members, based on the attained age system, sets the pension age at 62, with the possibility of an earlier retirement under specified terms, and a benefit of maximum 70% of the calculated pension base, depending on the years of service. Mr. Shepard has continued his participation in the AEGON USA pension provisions.

Mr. Shepard is entitled to a variable allowance in addition to the STI. Until his appointment as Chairman of the Executive Board this allowance related to the earnings' increase of AEGON USA. Effective from his appointment as Chairman per April 18, 2002, the Committee advised, and the Supervisory Board resolved to do this, to entitle Mr. Shepard to an annual allowance equal to 0.1% of the net income of AEGON N.V., as a compensation for the fact that the variable allowance related to the AEGON USA earnings increase was stopped as per the same date and his base salary was not increased at that time. The total of these pro rata allowances over 2002, paid in April 2003 to Mr. Shepard, amounted to EUR 1,207 million. In the individual employment contracts, specific arrangements

regulate the Executive Board members' entitlements in case of termination by AEGON of the Executive Board membership or employment with AEGON. Mr. Shepard would, under such termination other than for 'cause, death, disability, retirement or voluntary resignation', be entitled to three years' fixed salary plus an amount equal to the average of the STI bonuses he has received in three previous years. As for the other members no specific financial arrangement was agreed, as a consequence of which relevant procedures in the Netherlands will apply.

The individual employment contracts also determine the provisions in case of termination of Executive Board membership or employment with AEGON, in connection with a merger, takeover or fundamental changes. In that case Mr. Shepard is entitled to compensation in line with CEOs in the US insurance industry, but not less than three years' fixed salary, in addition to vested benefits, plus an amount equal to the average of the STI bonuses he has received in three previous years.

Mr. Streppel would be entitled to compensation using the Dutch 'Zwartkruis formula' by which the amount will be calculated on the basis of and depending on age, years of service, functional level and the probability of finding another equivalent position. For Messrs. Van der Werf and Wynaendts relevant procedures in the Netherlands will be followed.



**Creating a better future for all its stakeholders is central to AEGON's overall mission. An integral aspect of this is the belief that as a major international group, AEGON has a responsibility to contribute positively to the society and environment in which it operates. While profitable and sustainable growth is paramount, AEGON attaches equal importance to the manner in which that growth is achieved. The belief that companies like AEGON must consider these wider responsibilities is shared throughout AEGON's Executive and Supervisory Boards, as well as its senior management.**

AEGON is committed to the ongoing development of corporate responsibility, which is the responsibility of a member of the Executive Board, who also chairs AEGON's corporate responsibility strategy team. Under the Executive Board is a corporate responsibility department. The department's role is to manage AEGON's corporate responsibility improvements across the group, including policy formulation and the management of corporate responsibility reporting. In addition, there are corporate responsibility country unit heads and a corporate responsibility Inner Circle. The Inner Circle provides an inter-country forum on corporate responsibility issues and consists of representatives from AEGON's major country units. The international nature of the Inner Circle ensures that AEGON's corporate responsibility policies take full consideration of the cultural priorities and sensitivities relevant to each geographic area of AEGON's operations.

In 2002, AEGON developed a Code of Conduct, which articulates more clearly a series of business principles and rules of conduct to guide all of AEGON's businesses and employees. AEGON strives to create better futures for all its stakeholders by following the principles of the code - Respect, Quality, Transparency and Trust.

The past year has seen the introduction of the Code of Conduct to the country units, which by the end of 2003 was implemented throughout most of the AEGON Group. AEGON will continue this implementation in 2004 to ensure that every AEGON employee is aware of the group's core values, business principles and rules of conduct. AEGON believes that it is vital

that the code is integrated into every country unit's day to day operations and that employees' understanding of its concepts are raised through education and accountability. As part of this, AEGON will continue to monitor the effects of the implementation and ensure ongoing compliance with the code.

As a large decentralized company, active corporate responsibility policies were already established among AEGON's country units, before the introduction of the code, with many different kinds of activities taking place. A major objective has been to form a full and accurate picture of these policies and activities throughout the AEGON Group. During the year a centralized and robust method of gathering and monitoring corporate responsibility activities was developed. This method was based upon the guidelines of the United Nations-backed body, the Global Reporting Initiative (GRI). From this, AEGON has been able to form a clear picture of corporate responsibility activities group-wide for the first time. This has enabled AEGON to develop a real understanding of the different drivers, market cultures and attitudes to corporate responsibility in all the country units. This process will continue in 2004 and will enable AEGON to embed its core values and enhance reporting.

### AEGON'S CORE VALUES

**Respect:** We treat all our stakeholders the way that we want to be treated with consideration for individual and cultural diversity.

**Quality:** We offer products and services that are designed to improve the futures and financial security of our stakeholders.

**Transparency:** We provide open, accurate and timely information about our products, performance and financial results.

**Trust:** We build long-term relationships by honoring our commitments.

AEGON will publish its first corporate responsibility report later in 2004, which will provide a further update on progress that has been made. More information on this and on corporate responsibility within AEGON can be found within the corporate responsibility chapter of AEGON's website at: [www.aegon.com](http://www.aegon.com).

### INDICATORS OF AEGON'S CORPORATE RESPONSIBILITY PROGRESS

AEGON was again included in the two leading external Corporate Social Responsibility indices, the FTSE4Good and the Dow Jones Global Sustainability Index.

Active support of 'Habitat for Humanity' by AEGON USA, AEGON The Netherlands and AEGON UK.

Ongoing financial support by AEGON to the Johns Hopkins Oncology Center, School of Medicine in Baltimore, United States, and the University Hospital of Vrije Universiteit in Amsterdam, the Netherlands.

In the United States, Transamerica Reinsurance won two 2003 'Best Places to Work' awards in the categories 'Creative perks, incentives and rewards' and 'Employee education and development' from the Charlotte Business Journal.

AEGON The Netherlands successfully maintained its ISO 14001 environmental accreditation.

The continued sponsorship of the Royal Dutch Skating Association by AEGON The Netherlands. 2004 is the European year of the handicapped and AEGON The Netherlands is working with the Royal Dutch Skating Association and the

National Fund for Handicapped Sportsman and Women to make skating more accessible for people with a mental or physical handicap. As the main sponsor of the Association, AEGON The Netherlands provides across the board support to skating in The Netherlands by training and coaching young talent in the various regions of the country.

AEGON UK received the 5 star Health and Safety Award from the British Safety Council.

For the second time in five years, AEGON UK was awarded the British Safety Council's prestigious Sword of Honour. Just 40 of the world's safest companies are presented with Swords of Honour each year.

A specific corporate responsibility section was launched on the AEGON Group website.



# FINANCIAL INFORMATION

AEGON IS COMMITTED TO PROVIDING  
TRANSPARENT INFORMATION AND QUALITY  
SERVICES TO EXISTING AND POTENTIAL  
SHAREHOLDERS

## EXCHANGE RATES AT DECEMBER 31, 2003

	EUR	USD	GBP	CAD	HUF	NTD
1 EUR	-	1.263	0.7048	1.6234	262.500	42.880
1 USD	0.792	-	0.558	1.285	207.838	33.951
1 GBP	1.419	1.792	-	2.303	372.446	60.840
1 CAD	0.616	0.778	0.434	-	161.698	26.414
100 HUF	0.381	0.481	0.268	0.618	-	16.335
100 NTD	2.332	2.945	1.644	3.786	612.174	-

## WEIGHTED AVERAGE EXCHANGE RATES 2003

	EUR	USD	GBP	CAD	HUF	NTD
1 EUR	-	1.1311	0.6909	1.5809	253.340	39.150
1 USD	0.884	-	0.611	1.398	223.977	34.612
1 GBP	1.447	1.637	-	2.228	366.681	56.665
1 CAD	0.633	0.715	0.437	-	160.250	24.764
100 HUF	0.395	0.446	0.273	0.624	-	15.454
100 NTD	2.554	2.889	1.765	4.038	647.101	-

## CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

In accordance with Dutch Accounting Principles  
Amounts in millions

2003 USD	2002 USD		Note number	2003 EUR	2002 EUR
		<b>INVESTMENTS</b>			
2,862	2,319	Real estate	1	2,266	2,211
3,643	3,729	Group companies and participations	2	2,884	3,556
150,164	134,615	Other financial investments	3	118,895	128,364
42	35	Deposits with ceding undertakings	4	33	33
<b>156,711</b>	<b>140,698</b>			<b>124,078</b>	<b>134,164</b>
<b>126,412</b>	<b>99,341</b>	<b>INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS</b>	5	<b>100,089</b>	<b>94,728</b>
		<b>RECEIVABLES</b>			
3,189	2,218	Receivables out of direct insurance	6	2,525	2,115
1,136	586	Receivables out of reinsurance		899	559
1,373	1,194	Other receivables	7	1,087	1,138
<b>5,698</b>	<b>3,998</b>			<b>4,511</b>	<b>3,812</b>
		<b>OTHER ASSETS</b>			
403	412	Equipment	8	319	393
2,077	1,664	Liquid assets	9	1,645	1,587
210	40	Other assets		166	38
<b>2,690</b>	<b>2,116</b>			<b>2,130</b>	<b>2,018</b>
		<b>PREPAYMENTS AND ACCRUED INCOME</b>			
1,878	1,614	Accrued interest and rent		1,487	1,539
2,123	2,040	Other prepayments and accrued income	10	1,681	1,945
<b>4,001</b>	<b>3,654</b>			<b>3,168</b>	<b>3,484</b>
<b>295,512</b>	<b>249,807</b>	<b>TOTAL ASSETS</b>		<b>233,976</b>	<b>238,206</b>

For notes: see page 87 and following.

2003 USD	2002 USD		Note number	2003 EUR	2002 EUR
<b>17,849</b>	<b>14,924</b>	<b>SHAREHOLDERS' EQUITY</b>	11	<b>14,132</b>	<b>14,231</b>
<b>2,431</b>	<b>2,106</b>	<b>CAPITAL SECURITIES</b>	12	<b>1,925</b>	<b>2,008</b>
<b>571</b>	<b>646</b>	<b>SUBORDINATED LOANS</b>	13	<b>452</b>	<b>616</b>
<b>20,851</b>	<b>17,676</b>	<b>EQUITY AND SUBORDINATED LOANS</b>		<b>16,509</b>	<b>16,855</b>
		<b>TECHNICAL PROVISIONS</b>	14		
116,896	106,735	Life insurance		92,554	101,778
1,330	1,043	Unearned premiums and unexpired risks		1,053	995
2,834	2,428	Claims outstanding		2,244	2,315
386	319	Profit sharing and rebates		306	304
667	537	Other technical provisions		528	512
122,113	111,062	Gross		96,685	105,904
(3,554)	(3,136)	Reinsurers' share		(2,814)	(2,990)
<b>118,559</b>	<b>107,926</b>			<b>93,871</b>	<b>102,914</b>
		<b>TECHNICAL PROVISIONS WITH INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS</b>	15		
129,048	100,574	Gross		102,176	95,904
(2,636)	(1,233)	Reinsurers' share		(2,087)	(1,176)
<b>126,412</b>	<b>99,341</b>			<b>100,089</b>	<b>94,728</b>
<b>2,214</b>	<b>1,913</b>	<b>PROVISIONS</b>	16	<b>1,753</b>	<b>1,824</b>
<b>5,926</b>	<b>4,044</b>	<b>LONG-TERM LIABILITIES</b>	17	<b>4,692</b>	<b>3,856</b>
<b>29</b>	<b>24</b>	<b>DEPOSITS WITHHELD FROM REINSURERS</b>		<b>23</b>	<b>23</b>
		<b>CURRENT LIABILITIES</b>			
3,391	2,771	Payables out of direct insurance		2,685	2,642
591	380	Payables out of reinsurance		468	362
3,336	4,469	Amounts owed to credit institutions		2,641	4,262
7,144	6,674	Entrusted savings accounts and deposits		5,656	6,364
4,662	3,656	Other payables	18	3,691	3,486
<b>19,124</b>	<b>17,950</b>			<b>15,141</b>	<b>17,116</b>
<b>2,397</b>	<b>933</b>	<b>ACCRUALS AND DEFERRED INCOME</b>	19	<b>1,898</b>	<b>890</b>
<b>295,512</b>	<b>249,807</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>233,976</b>	<b>238,206</b>

For notes: see page 87 and following.

## SUMMARIZED CONSOLIDATED INCOME STATEMENTS

In accordance with Dutch Accounting Principles  
Amounts in millions (except for per share data)

2003 USD	2002 USD		Note number	2003 EUR	2002 EUR	2001 EUR
		<b>REVENUES</b>				
22,020	20,220	Gross premiums		19,468	21,356	21,578
8,354	7,947	Investment income	22	7,386	8,394	9,318
1,381	926	Fees and commissions	23	1,221	978	615
401	394	Income from banking activities	24	354	416	384
<b>32,156</b>	<b>29,487</b>	<b>TOTAL REVENUES</b>		<b>28,429</b>	<b>31,144</b>	<b>31,895</b>
		<b>BENEFITS AND EXPENSES</b>				
2,560	2,397	Premiums to reinsurers		2,263	2,532	1,859
12,333	11,693	Benefits to policyholders		10,904	12,350	11,916
7,169	7,029	Change in technical provisions	25	6,338	7,424	8,815
194	179	Profit sharing and rebates	26	171	189	248
6,093	4,935	Commissions and expenses	27	5,387	5,212	4,574
730	691	Interest charges		645	730	862
649	812	Miscellaneous income and expenditure	29	574	858	378
<b>29,728</b>	<b>27,736</b>	<b>TOTAL BENEFITS AND EXPENSES</b>		<b>26,282</b>	<b>29,295</b>	<b>28,652</b>
2,428	1,751	Income before tax		2,147	1,849	3,243
(647)	(334)	Corporation tax	31	(572)	(353)	(918)
247	48	Net income unconsolidated group companies	32	218	51	72
<b>2,028</b>	<b>1,465</b>	<b>NET INCOME</b>		<b>1,793</b>	<b>1,547</b>	<b>2,397</b>
1.30	0.98	Net income per share <sup>1</sup>	33	1.15	1.04	1.70
1.30	0.98	Net income per share fully diluted <sup>1</sup>	33	1.15	1.04	1.69

<sup>1</sup>Adjusted for stock dividend.

For notes: see page 108 and following.

## CONSOLIDATED INCOME STATEMENTS

In accordance with Dutch Accounting Principles  
Amounts in EUR millions

	Note number	2003	2002	2001
<b>TECHNICAL ACCOUNT LIFE INSURANCE</b>				
<b>PREMIUMS FOR OWN ACCOUNT</b>				
Gross premiums		16,209	17,741	18,281
Premiums to reinsurers		(1,763)	(1,977)	(1,257)
	20	<b>14,446</b>	<b>15,764</b>	<b>17,024</b>
<b>INVESTMENT INCOME</b>	22	<b>7,063</b>	<b>8,018</b>	<b>8,866</b>
<b>FEES AND COMMISSIONS</b>	23	<b>980</b>	<b>676</b>	<b>473</b>
<b>INVESTMENT INCOME FOR ACCOUNT OF POLICYHOLDERS</b>		<b>12,858</b>	<b>(11,524)</b>	<b>(9,515)</b>
<b>BENEFITS AND SURRENDERS OWN ACCOUNT</b>				
Benefits to policyholders				
Gross		(10,269)	(11,490)	(11,218)
Reinsurers' share		794	765	883
		<b>(9,475)</b>	<b>(10,725)</b>	<b>(10,335)</b>
<b>CHANGE IN OTHER TECHNICAL PROVISIONS OWN ACCOUNT</b>				
Provision for life insurance				
Gross		(20,449)	3,283	94
Reinsurers' share		1,577	1,197	889
		(18,872)	4,480	983
Other technical provisions		0	(5)	(39)
		<b>(18,872)</b>	<b>4,475</b>	<b>944</b>
<b>PROFIT SHARING AND REBATES</b>	26	<b>(171)</b>	<b>(189)</b>	<b>(248)</b>
<b>OPERATING EXPENSES</b>	27	<b>(3,874)</b>	<b>(3,548)</b>	<b>(3,233)</b>
<b>INVESTMENT CHARGES</b>	28	<b>(217)</b>	<b>(271)</b>	<b>(242)</b>
<b>OTHER TECHNICAL CHARGES OWN ACCOUNT</b>	29	<b>(526)</b>	<b>(862)</b>	<b>(415)</b>
		<b>2,212</b>	<b>1,814</b>	<b>3,319</b>
<b>INVESTMENT INCOME ALLOCATED TO THE NON-TECHNICAL ACCOUNT</b>	30	<b>(848)</b>	<b>(1,030)</b>	<b>(1,011)</b>
<b>RESULT TECHNICAL ACCOUNT LIFE</b>		<b>1,364</b>	<b>784</b>	<b>2,308</b>

For notes: see page 108 and following.

## CONSOLIDATED INCOME STATEMENTS

In accordance with Dutch Accounting Principles  
Amounts in EUR millions

	Note number	2003	2002	2001
<b>TECHNICAL ACCOUNT NON-LIFE INSURANCE</b>				
<b>PREMIUMS EARNED FOR OWN ACCOUNT</b>				
Gross premiums		3,259	3,615	3,297
Premiums to reinsurers		(500)	(555)	(602)
		2,759	3,060	2,695
Change in technical provision unearned premiums and unexpired risks				
Gross		(223)	(439)	(546)
Reinsurers' share		55	155	198
		(168)	(284)	(348)
		<b>2,591</b>	<b>2,776</b>	<b>2,347</b>
<b>INVESTMENT INCOME</b>	22	<b>289</b>	<b>329</b>	<b>359</b>
<b>FEES AND COMMISSIONS</b>	23	<b>241</b>	<b>302</b>	<b>142</b>
<b>CLAIMS FOR OWN ACCOUNT</b>				
Claims incurred				
Gross		(1,668)	(1,927)	(1,945)
Reinsurers' share		239	302	364
		(1,429)	(1,625)	(1,581)
Change in provision for claims				
Gross		(163)	(154)	238
Reinsurers' share		7	63	(134)
		(156)	(91)	104
		<b>(1,585)</b>	<b>(1,716)</b>	<b>(1,477)</b>
<b>OPERATING EXPENSES</b>	27	<b>(1,156)</b>	<b>(1,305)</b>	<b>(1,053)</b>
<b>INVESTMENT CHARGES</b>	28	<b>(3)</b>	<b>(2)</b>	<b>(6)</b>
<b>OTHER TECHNICAL CHARGES OWN ACCOUNT</b>	29	<b>(33)</b>	<b>(44)</b>	<b>(36)</b>
		<b>344</b>	<b>340</b>	<b>276</b>
<b>INVESTMENT INCOME ALLOCATED TO THE NON-TECHNICAL ACCOUNT</b>	30	<b>(23)</b>	<b>(26)</b>	<b>(27)</b>
<b>RESULT TECHNICAL ACCOUNT NON-LIFE</b>	21	<b>321</b>	<b>314</b>	<b>249</b>
<b>NON-TECHNICAL ACCOUNT</b>				
<b>RESULT TECHNICAL ACCOUNT LIFE INSURANCE</b>		<b>1,364</b>	<b>784</b>	<b>2,308</b>
<b>RESULT TECHNICAL ACCOUNT NON-LIFE INSURANCE</b>		<b>321</b>	<b>314</b>	<b>249</b>
<b>INVESTMENT INCOME</b>	22	<b>34</b>	<b>47</b>	<b>93</b>
<b>INCOME FROM BANKING ACTIVITIES</b>	24	<b>354</b>	<b>416</b>	<b>384</b>
<b>ALLOCATED INVESTMENT INCOME TRANSFERRED FROM TECHNICAL ACCOUNTS</b>	30	<b>871</b>	<b>1,056</b>	<b>1,038</b>
<b>OPERATING EXPENSES BANKING ACTIVITIES AND OTHER EXPENSES</b>	27	<b>(140)</b>	<b>(125)</b>	<b>(96)</b>
<b>INVESTMENT CHARGES</b>	28	<b>(642)</b>	<b>(691)</b>	<b>(806)</b>
<b>MISCELLANEOUS INCOME AND EXPENDITURE</b>	29	<b>(15)</b>	<b>48</b>	<b>73</b>
<b>INCOME BEFORE TAX</b>		<b>2,147</b>	<b>1,849</b>	<b>3,243</b>
<b>CORPORATION TAX</b>	31	<b>(572)</b>	<b>(353)</b>	<b>(918)</b>
<b>NET INCOME UNCONSOLIDATED GROUP COMPANIES</b>	32	<b>218</b>	<b>51</b>	<b>72</b>
<b>NET INCOME</b>		<b>1,793</b>	<b>1,547</b>	<b>2,397</b>

For notes: see page 108 and following.



## CONSOLIDATED CASH FLOW STATEMENTS

In accordance with Dutch Accounting Principles  
Amounts in millions

2003 USD	2002 USD		2003 EUR	2002 EUR	2001 EUR
		<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
2,028	1,465	Net income	1,793	1,547	2,397
8,268	4,024	Increase technical provisions net of reinsurance	7,310	4,250	9,820
21,002	26,907	Annuity, GIC and funding agreement deposits	18,568	28,419	26,381
(17,421)	(17,297)	Annuity, GIC and funding agreement repayments	(15,402)	(18,269)	(19,059)
58	(736)	Change in provisions	51	(777)	(488)
1,955	1,749	Amortization of policy acquisition costs	1,728	1,848	1,422
81	80	Amortization of interest rate rebates	72	84	102
131	95	Depreciation of equipment	116	100	79
1,069	2,176	Change in current liabilities	945	2,299	734
(801)	(87)	Change in entrusted funds	(708)	(92)	1,257
(2,418)	(2,733)	Deferred policy acquisition costs	(2,138)	(2,887)	(2,558)
(43)	(47)	Interest rate rebates granted	(38)	(50)	(94)
(1,175)	(43)	Change in receivables	(1,039)	(45)	(904)
<b>12,734</b>	<b>15,553</b>		<b>11,258</b>	<b>16,427</b>	<b>19,089</b>
		<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
		Invested and acquired			
(2,068)	(3,234)	Real estate and shares	(1,828)	(3,416)	(3,980)
(580)	(1,081)	Shares of group companies and subsidiaries	(513)	(1,142)	(1,673)
(109,609)	(95,210)	Other investments	(96,905)	(100,560)	(89,966)
(110)	(153)	Equipment	(97)	(162)	(194)
		Disposed and redeemed			
1,905	3,770	Real estate and shares	1,684	3,982	3,335
718	299	Shares of group companies and subsidiaries	635	316	1,166
102,347	84,990	Other investments	90,484	89,766	78,254
9	11	Equipment	8	12	11
(714)	(718)	Indirect return shares and real estate	(631)	(758)	(723)
(4,875)	(3,980)	Change in investments for account of policyholders	(4,310)	(4,204)	(6,961)
(677)	(61)	Other movements	(599)	(65)	(335)
<b>(13,654)</b>	<b>(15,367)</b>		<b>(12,072)</b>	<b>(16,231)</b>	<b>(21,066)</b>
		<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1,165	(747)	Change in subordinated and other long-term loans	1,030	(789)	1,107
21	0	Repurchased and sold own shares	19	0	(21)
0	0	Issuance of common shares	0	0	1,685
0	1,944	Paid in capital/withdrawal preferred shares	0	2,053	0
0	(1)	Change in deposits withheld from reinsurers	0	(1)	29
0	0	Options exercised	0	0	3
0	(6)	Cash settlement stock options	0	(6)	(71)
–	–	Cash settlement subordinated convertible loan	–	–	(68)
(200)	(695)	Dividend paid	(177)	(734)	(544)
<b>986</b>	<b>495</b>		<b>872</b>	<b>523</b>	<b>2,120</b>
<b>66</b>	<b>681</b>	<b>CHANGE IN LIQUID ASSETS</b>	<b>58</b>	<b>719</b>	<b>143</b>
1.1311	0.9468	Translation rate EUR/USD: weighted average exchange rate			

The cash flow statement has been set up according to the indirect method. Only those changes affecting liquid assets have been taken into account. The effects of revaluation and currency exchange rate differences have therefore not been included. Currency exchange rate differences had a significant negative impact on liquid assets denominated in foreign currencies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### INTRODUCTION

These financial statements have been drawn up in accordance with the rules for financial statements of insurance companies in the Netherlands, embodied in Title 9, Book 2 of the Dutch Civil Code. A summarized consolidated income statement has been added to the required balance sheet and profit and loss account in order to present a comprehensible view of the results of the AEGON Group (AEGON).

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

For detailed information about risks and sensitivity of AEGON to movements in the interest rate markets, the currency markets and the equity and real estate markets, and their effects on net income and shareholders' equity, refer to the review of risk factors on page 33 and following.

Application of the accounting policies in the preparation of the annual accounts requires management to use judgements involving assumptions and estimates concerning future results or other developments including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ from those estimates. Accounting policies that are critical to the financial statement presentation and that require significant judgement or involve complex estimates are the policies concerning the determination of default provisions for fixed rate investments, the other than temporary impairments of equity securities, the technical provisions for life insurance including amortization of deferred policy acquisition costs, the provisions for minimum benefit guarantees, and the pension expense. For further explanation refer to the notes of the related items.

As of the financial year 2003, the market value of stock appreciation rights is recognized as a liability in the balance sheet. Valuation is at market value with changes in the value recognized in the income statement under expenses. This accounting method is in accordance with International Reporting Standards. As the related plans had no value at year-end 2002, the application of these guidelines does not affect the comparative figures.

As was announced in the 2002 annual report, the accounting for capital gains and losses on shares and real estate will be changed in 2004. With International Financial Reporting Standards (IFRS) becoming AEGON's required reporting standard in 2005, AEGON has decided to discontinue the indirect income method of accounting for capital gains and losses. As of January 1, 2004, capital gains and losses will be recognized as earnings in the income statement when realized. Reported indirect income and the realized capital gains and losses for the last three years were as follows:

Amounts in EUR millions	Indirect income	Realized capital gains and losses
2003	631	(270)
2002	758	(1,343)
2001	723	(507)

The realized portion of the revaluation account at December 31, 2003 amounting to EUR 1,281 million will be transferred directly to the surplus fund as of January 1, 2004 and the change will not have an effect on the level of shareholders' equity.

In these financial statements the breakdown of revenues in the income statement has been changed, showing on a separate line the revenues from the distribution and the asset management operations. This change has no effect on the financial position and results. The comparative figures have been adjusted accordingly.

With effect from January 1, 2003, the balance sheets and income statements of the Meeùs group, consisting of intermediary and real estate management and brokerage companies, and of a number of smaller distribution companies for financial products all established in the Netherlands, have been fully consolidated. The consolidation follows on from the decision no longer to undertake efforts to achieve a business combination with third parties for these companies.

On May 9, 2003, the extraordinary General Meeting of Shareholders approved certain changes to the corporate governance of AEGON. It was decided to no longer voluntarily apply the "large company regime" of the Dutch corporate code, to change the relationship with Vereniging AEGON and to increase the authority of AEGON N.V.'s shareholders. One of the changes concerns the corporate body that is authorized to adopt the annual accounts. Under the new corporate governance the General Meeting of Shareholders is the body that shall adopt the annual accounts, instead of the Supervisory Board, as was the case under the "large company regime". Due to this change the dividend on preferred shares will not be accrued as of the end of 2003 since the liability can only be determined after the adoption of the annual accounts by the General Meeting of Shareholders.

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 this joint venture as equal partners and each contributed 50% to the initial capital base of approximately EUR 27 million. The joint venture's headquarters are located in Shanghai. After receiving regulatory approval operations started in 2003.

On August 5, 2003, AEGON announced an agreement to sell most of the commercial lending business 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. Therefore the 2003 annual accounts fully include on a non-consolidated basis the assets, liabilities and results for these businesses.

On October 2, 2003, AEGON completed the sale of Transamerica Finance Corporation's real estate tax service and flood hazard certification businesses to The First American Corporation for a total cash 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.

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 the insight required by law.

#### **CONSOLIDATION PRINCIPLES**

In the consolidated financial statements of AEGON N.V., all group companies have been included, except for some group companies whose aggregate financial effect is relatively insignificant or which are not intended to be held long-term. Group companies, the consolidation of which would not result in a fair view of the group because of dissimilar activities, are also not consolidated. The consolidated financial statements of these latter companies have been added separately in the notes. Their results are presented in the income statements on a separate line.

Consolidated entities also include special purpose entities set up in connection with the sale of investment products in the United States. Participations in joint ventures have been consolidated proportionally.

Due to their insignificance, minority interests are included under other current liabilities.

A list of names and locations of the most important group companies is given on page 134.

With regard to the income statements of AEGON N.V., article 402, Book 2 of the Dutch Civil Code has been applied, allowing a simplified format.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOREIGN CURRENCY

Assets and liabilities denominated in foreign currencies are converted into euro at the year-end exchange rates. Currency exchange rate differences resulting from the conversion of foreign currencies investments in shares and real estate are accounted for in shareholders' equity.

Income statement items in foreign currencies are converted at the weighted average currency exchange rates for the reporting period. Calculation differences resulting from using year-end exchange rates in the balance sheet and weighted average exchange rates in the income statement are charged or credited directly to shareholders' equity under the caption currency exchange rate differences.

Equity held in subsidiaries not accounted for in euro, to the level of self-imposed requirements applied within the group, is not hedged against currency exchange rate movements. Equity amounts in excess of these requirements held in subsidiaries can be hedged. All currency results related to equity held in subsidiaries and the funding thereof, including results and related costs from hedging transactions on those subsidiaries, are accounted for in shareholders' equity under the caption currency exchange rate differences. Other currency exchange rate differences are included in the income statements.

The most important closing rates at December 31 are:

	2003	2002
US Dollar (USD)	1.26300	1.04870
Swiss Franc (CHF)	1.55790	1.45240
Pound Sterling (GBP)	0.70480	0.65050
Canadian Dollar (CAD)	1.62340	1.65500
Japanese Yen (JPY)	135.05000	124.39000
Hungarian Forint (HUF)	262.50000	235.90000
Taiwan Dollar (NTD)	42.88000	36.11000

Weighted average exchange rates applied for income statement items:

	2003	2002	2001
US Dollar (USD)	1.13110	0.94680	0.89540
Pound Sterling (GBP)	0.69090	0.62830	0.62130
Canadian Dollar (CAD)	1.58090	1.48470	1.38850
Hungarian Forint (HUF)	253.34000	242.88000	257.30000
Taiwan Dollar (NTD)	39.15000	32.77000	29.68200

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

### ACCOUNTING PRINCIPLES

Where not otherwise stated, balance sheet items are carried at face value. If necessary, provisions for expected future losses on investments and for bad and doubtful debts are deducted.

Provisions for future losses on fixed income investments (bonds, mortgage loans and private placements) are established for expected defaults or other credit related issues. The provisions reflect management's judgement about possible defaults and is based upon a variety of factors, including expectations for long-term default rates and pricing assumptions.

For bonds and private placements, industry sectors and individual debt investments are monitored regularly for signs of impairment, including length of time and extent to which the market value has been less than cost, industry risk factors, financial condition and near-term prospects of the issuer, and rating changes of locally recognized credit rating agencies. Additionally for asset-backed securities and loans, cash flow trends and underlying levels of collateral are monitored. A specific security or loan is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled. Consideration is also given to management's intent and ability to hold a security or loan until maturity or until market value will recover.

Credit risk on mortgages is monitored by assessing delay of payment classification combined with a related level of provision. Other asset provisions are formed when credit risk emerges. Assets identified with potential credit issues are monitored and placed on a watch list. Discussions about those assets on the watch list are held on a regular basis to determine necessary updates.

In the United States, a reduction in the carrying value is made and charged against any default provision when impairment of a specific fixed income investment is determined. The determination of the amount of the write-down is based upon management's best estimate of the future recoverable value of the fixed income investment and takes into account underlying collateral or estimations of the liquidation values of the issuers.

In the other countries the provision is accrued until the receivable has legally ceased to exist.

Assets and liabilities from banking activities and gains and losses on these activities are accounted for in accordance with the regulations for banks. The impact on group equity and net income from the differences in accounting principles compared to the rules applied at insurance companies is not material.

<b>1 REAL ESTATE</b>	<b>2003</b>	<b>2002</b>
Real estate for own use	255	345
Other real estate	2,011	1,866
	<b>2,266</b>	<b>2,211</b>

Real estate is shown at market value, which is the selling value under normal market circumstances. Each property is valued at least once in every 5 year period. Valuation is largely based on external appraisal. In 2003 98% of the portfolio was valued.

New property is valued at construction cost including interest during the construction period, or at purchase price.

Unrealized and realized gains and losses on real estate investments as well as results, expenses and currency exchange rate differences from hedging transactions are recognized in the revaluation account, taking into account the related (deferred) taxes. The impairments for the financial year amounted to EUR 79 million (2002: nil). Under the indirect income method, this loss has been recognized in the realized part of the revaluation account with offset in the unrealized part of the revaluation account.

The participation in the real estate joint venture AMVEST Vastgoed is accounted for under this caption.

Purchase price of the portfolio amounts to EUR 1,591 million (2002: EUR 1,799 million).

<b>2 GROUP COMPANIES AND PARTICIPATIONS</b>	<b>2003</b>	<b>2002</b>
Shares in group companies:		
Transamerica Finance Corporation	684	873
Other group companies	160	153
Total group companies	844	1,026
Loans to/(from) group companies:		
Transamerica Finance Corporation	1,989	2,342
Other group companies	(48)	77
Total loans to/(from) group companies	1,941	2,419
Other participations	93	105
Loans to other participations	6	6
<b>TOTAL</b>	<b>2,884</b>	<b>3,556</b>

Interests in companies in which AEGON is able to influence operating policy but has no control, as well as group companies which are not consolidated because of their relative financial insignificance, are accounted for by inclusion of AEGON's proportion of the equity and the net income of the companies, based on AEGON accounting principles. Loans to group companies and other participations are valued at face value.

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

Interests in short-term holdings are valued at cost less provisions where necessary. Dividends declared are included in the consolidated income statements.

The interest in the Transamerica non-insurance businesses (Transamerica Finance Corporation) is accounted for under shares in group companies at net asset value. These group companies are not consolidated because the nature of their business is dissimilar to the rest of the AEGON Group businesses. Consolidated financial statements of Transamerica Finance Corporation are presented on page 121 and following.

MOVEMENTS IN GROUP COMPANIES AND PARTICIPATIONS	Shares in group companies and participations		Loans to group companies and participations	
	2003	2002	2003	2002
Balance at January 1	1,131	1,403	2,425	1,877
Capital contribution and acquisitions	102	169	53	903
Divestitures and redemptions	(629)	(316)	(6)	0
Net income for the financial year	290	87	0	0
Dividend distributed	(23)	(11)	0	0
Revaluations/exchange rate differences	(130)	(176)	(412)	(289)
Other movements	196	(25)	(113)	(66)
<b>BALANCE AT DECEMBER 31</b>	<b>937</b>	<b>1,131</b>	<b>1,947</b>	<b>2,425</b>

3 OTHER FINANCIAL INVESTMENTS	2003	2002
Shares	6,545	6,324
Bonds and other fixed rate securities	71,576	75,697
Loans guaranteed by mortgages	16,748	18,568
Other loans	18,710	21,632
Deposits with credit institutions	1,349	1,577
Other financial investments	3,967	4,566
	<b>118,895</b>	<b>128,364</b>

<b>SHARES</b>	<b>6,545</b>	<b>6,324</b>
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Shares, non-redeemable preferred shares and convertible debentures reported under this caption are valued at their quoted price or, if unquoted, at estimated market value.

Unrealized and realized gains and losses on shares as well as results, expenses and currency exchange rate differences from hedging transactions are recognized in the revaluation account, taking into account the related (deferred) taxes.

	Cost price	Unrealized gains	Unrealized losses	Market value
Amounts at December 31,				
2003	5,540	1,097	(92)	6,545
2002	6,069	853	(598)	6,324

For shares whose market value is considered to be impaired on an 'other than temporary' (durable) basis, a realized loss is recorded. Shares are generally considered to be other than temporarily impaired if the market value is 20% below cost for a period of at least six months. However, independent third party documentation about the financial condition, near-term prospects of the issuer and the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery, are also important factors taken into account. These factors typically require significant management judgement. The impairments for the financial year amounted to EUR 273 million (2002: EUR 1,057 million). Under the indirect income method, this loss has been recognized in the realized part of the revaluation account with offset in the unrealized part of the revaluation account.

When an optional dividend is taken in shares, an amount equal to the cash dividend is credited to income.

The participation in AEGON Global Investment Fund N.V. is also accounted for under this caption.

Shares and convertible debentures lent out are included and amount to EUR 826 million (2002: EUR 651 million). No shares and convertible debentures were borrowed.



The composition by industry categories of shares in an unrealized loss position at December 31 is presented in the table below.

	Carrying value of shares with gross unrealized losses		Gross unrealized losses	
	2003	2002	2003	2002
Funds	160	161	(14)	(37)
Cyclical consumer	39	117	(10)	(22)
Financials	205	459	(7)	(45)
Non-cyclical consumer	77	800	(5)	(80)
Cyclical services	94	257	(4)	(47)
Industries	63	120	(4)	(20)
Non-cyclical services	21	126	(2)	(24)
Technology	14	73	(2)	(7)
Transportation	13	0	(1)	0
Communications	17	37	(1)	(5)
Resources	1	74	0	(15)
Other - limited partnerships	165	209	(33)	(256)
Other	117	393	(9)	(40)
Total shares in an unrealized loss position	986	2,826	(92)	(598)

	2003	2002
<b>BONDS AND OTHER FIXED RATE SECURITIES</b>	<b>71,576</b>	<b>75,697</b>

Bonds are shown at amortized cost less provisions for uncollectable amounts, representing the cash value at the balance sheet date of future interest and principal repayment components based on the effective interest rate on the date of acquisition.

Included in other fixed rate securities are redeemable preferred shares and money market investments. Redeemable preferred shares are valued at amortized cost; money market investments are valued at cost.

Realized gains and losses from transactions within the bonds and private placements portfolios, unless a loss is considered a default loss, are deferred and released to the income statements in annual installments over the estimated average remaining maturity term of the investments sold.

In the United States a reduction in the carrying value is made for bonds which are in default or have experienced a significant downgrade in their credit rating or a significant decline in their market value. Such reductions are charged against the bond default provision. In the other countries the provision is accrued until the receivable has legally ceased to exist.

	2003	2002
Redemption value of the bonds	73,677	76,496
Deferred purchase differences	(5,054)	(4,931)
Amortization value bonds	68,623	71,565
Other fixed rate securities	2,953	4,132
	71,576	75,697

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

The carrying value and market value of bonds and other fixed rate securities are as follows:

	Carrying value	Unrealized gains	Unrealized losses	Market value
Amounts at December 31, 2003				
US government	2,945	38	(25)	2,958
Dutch government	898	34	(1)	931
Other government	6,730	339	(50)	7,019
Mortgage backed securities	13,592	270	(188)	13,674
Corporate bonds	47,411	2,794	(115)	50,090
Total	71,576	3,475	(379)	74,672
Amounts at December 31, 2002				
US government	4,505	103	(17)	4,591
Dutch government	670	42	(1)	711
Other government	4,419	301	(15)	4,705
Mortgage backed securities	16,169	472	(311)	16,330
Corporate bonds	49,934	3,250	(961)	52,223
Total	75,697	4,168	(1,305)	78,560

The carrying value and market value of bonds and other fixed rate securities by contractual maturity at December 31, 2003 are as follows:

	Carrying value	Market value
Due in one year or less	4,202	4,243
Due after one year through five years	17,858	18,575
Due after five years through ten years	25,315	26,511
Due after ten years	24,201	25,343
Total	71,576	74,672

For a proper understanding it should be noted that the market value is not part of the matching of these investments with the related insurance liabilities, which are not stated at market value either.

The doubtful debts provision for bonds and other fixed rate securities not yet written down amounts to EUR 194 million (2002: EUR 249 million).

Bonds and other fixed rate securities lent out are included and amount to a carrying value of EUR 3,784 million (2002: EUR 5,469 million). No bonds and other fixed rate securities were borrowed.

	2003	2002
<b>LOANS GUARANTEED BY MORTGAGES</b>	<b>16,748</b>	<b>18,568</b>

Loans guaranteed by mortgages are valued at redemption value. Discounts granted are deferred and amortized to income over the contractual period of interest fixation.

Market value of the portfolio amounts to EUR 18,011 million (2002: EUR 20,039 million). As no market exists for these investments, market value is calculated based on current interest rate, maturity and risk assumptions. For a proper understanding it should be noted that this market value is not part of the matching of these investments with the related insurance liabilities, which are not stated at market value either.

The provision for doubtful debts for these investments amounts to EUR 47 million (2002: EUR 38 million).

	2003	2002
<b>OTHER LOANS</b>	<b>18,710</b>	<b>21,632</b>

Other loans represent private placements, which are shown at amortized cost less provisions for uncollectable amounts. Amortized cost represents the cash value at the balance sheet date of future interest and principal repayment components based on the effective interest rate on the date of acquisition.

Realized gains and losses from transactions within the private placements and bond portfolios valued at amortized cost are, unless the loss is considered a default loss, deferred and released to the income statements in annual installments over the estimated average remaining term to maturity of the investments sold.

In the United States a reduction in the carrying value is made for loans which are in default or have experienced a significant downgrade in their credit rating. Such reductions are charged against the loans default provision. In the other countries the provision is accrued until the receivable has legally ceased to exist.

	2003	2002
Redemption value	21,360	22,231
Deferred purchase differences	(2,650)	(599)
Amortization value	18,710	21,632

The carrying value and market value of private placements are as follows:

	Carrying value	Unrealized gains	Unrealized losses	Market value
Amounts at December 31, 2003				
US government	0	0	0	0
Dutch government	98	9	0	107
Other government	702	36	(5)	733
Mortgage backed loan agreements	4,800	120	(175)	4,745
Corporate private placements	13,110	826	(184)	13,752
Total	18,710	991	(364)	19,337
Amounts at December 31, 2002				
US government	12	1	0	13
Dutch government	1,288	83	(9)	1,362
Other government	819	22	(21)	820
Mortgage backed loan agreements	7,010	197	(343)	6,864
Corporate private placements	12,503	846	(474)	12,875
Total	21,632	1,149	(847)	21,934

The carrying value and market value of private placements by contractual maturity at December 31, 2003 are as follows:

	Carrying value	Market value
Due in one year or less	1,209	1,224
Due after one year through five years	5,551	5,765
Due after five years through ten years	6,634	6,920
Due after ten years	5,316	5,428
Total	18,710	19,337

As no market exists for these investments, market value is calculated based on current interest rates, term to maturity and risk assumptions. Asset-backed loan agreements are priced by outside brokers and corporate private placements are matrix priced primarily with spreads and interest rates from outside sources. In isolated instances, spreads or prices are adjusted for credit specific issues. These assets are valued similarly to a forced sale, therefore large discounts are included for liquidity premiums and the uniqueness of each deal.

For a proper understanding it should be noted that the market value is not part of the matching of these investments with the related insurance liabilities, which are not stated at market value either.

The provision for doubtful debts for not yet written-down private placements was nil (2002: EUR 32 million).

	2003	2002
<b>DEPOSITS WITH CREDIT INSTITUTIONS</b>	<b>1,349</b>	<b>1,577</b>

This item relates to amounts that can be called up after a minimum period of one year.

Market value of the deposits is equated with book value.

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

	2003	2002
<b>OTHER FINANCIAL INVESTMENTS</b>		
Policy loans	1,369	1,636
Receivables from share lease agreements and others	2,598	2,930
	<b>3,967</b>	<b>4,566</b>

Market value of policy loans is set equal to book value. The market value of receivables from share lease agreements and others amounts to EUR 2,595 million (2002: EUR 2,672 million).

The provision for doubtful debts amounts to EUR 19 million (2002: EUR 17 million).

<b>4 DEPOSITS WITH CEDING UNDERTAKINGS</b>		
	2003	2002
	<b>33</b>	<b>33</b>

Debentures related to reinsurance contracts that are not at free disposal.

Market value amounts to EUR 33 million (2002: EUR 33 million).

CHANGES IN INVESTMENTS	Balance at January 1, 2003	Acquired	Disposed and redeemed	Revalu- ations	Currency exchange rate differences and other changes	Balance at December 31, 2003
Real estate	2,211	180	(243)	104	14	2,266
Group companies and participations	3,556	155	(635)	0	(192)	2,884
Shares	6,324	1,648	(1,441)	575	(561)	6,545
Bonds and other fixed rate securities	75,697	82,292	(76,085)	0	(10,328)	71,576
Loans guaranteed by mortgages	18,568	3,995	(3,717) <sup>2</sup>	0	(2,098)	16,748
Other loans	21,632	9,113	(8,794)	0	(3,241)	18,710
Deposits with credit institutions	1,577	434	(655)	0	(7)	1,349
Other financial investments	4,566	1,071	(1,233)	0	(437)	3,967
Deposits with ceding undertakings	33	1	0	0	(1)	33
<b>TOTAL</b>	<b>134,164</b>	<b>98,889</b>	<b>(92,803)</b>	<b>679</b>	<b>(16,851)</b>	<b>124,078</b>
<b>BALANCES AND CHANGES OF 2002</b>	141,445	105,048	(94,064)	(1,560)	(16,705) <sup>1</sup>	134,164

<sup>1</sup> Including reallocation from investments for account of policyholders for an amount of EUR 1,278 million due to the final settlement of the Diversified Investment Advisors acquisition.

<sup>2</sup> Of which a decrease of EUR 2.3 billion due to securitizations.

The composition by industry categories of bonds, other fixed rate securities and private placements in an unrealized loss position at December 31 is presented in the table below.

	Carrying value of bonds, other fixed rate securities and private placements with gross unrealized losses		Gross unrealized losses	
	2003	2002	2003	2002
Asset backed securities - aircraft	289	432	(112)	(107)
Industries	3,098	2,220	(108)	(290)
Financials	3,768	2,197	(106)	(218)
Electric	1,933	2,154	(78)	(552)
Asset backed securities - CBOs	580	1,036	(49)	(159)
Asset backed securities - housing related	1,802	3,331	(45)	(180)
Non-cyclical consumer	1,419	895	(40)	(102)
Collateralized mortgage backed securities	2,079	1,052	(39)	(45)
Cyclical consumer	807	642	(29)	(87)
Asset backed securities - credit card receivables	384	1,318	(10)	(122)
Other	5,512	4,492	(127)	(290)
Total bonds, other fixed rate securities and private placements in an unrealized loss position	21,671	19,769	(743)	(2,152)

## OVERVIEW DEFAULT PROVISIONS FOR INVESTMENTS

	Balance at January 1	Addition charged to income statement	Charged for default	Other movements	Balance at December 31
<b>2003</b>					
Bonds and other fixed rate securities	249	435	(440)	(50)	194
Loans guaranteed by mortgages	38	24	(20)	5	47
Other loans	32	(29)	(3)	0	0
Other financial investments	17	1	(1)	2	19
<b>TOTAL</b>	<b>336</b>	<b>431</b>	<b>(464)</b>	<b>(43)</b>	<b>260</b>
<b>2002</b>					
Bonds and other fixed rate securities	238	818	(744)	(63)	249
Loans guaranteed by mortgages	53	2	(11)	(6)	38
Other loans	75	8	(3)	(48)	32
Other financial investments	34	2	(3)	(16)	17
<b>TOTAL</b>	<b>400</b>	<b>830</b>	<b>(761)</b>	<b>(133)</b>	<b>336</b>

## 5 INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS

Investments for account of policyholders and insurance-linked savings deposits are investments of which the investment risk is borne by the policyholders. They are valued at market value. Separated investments for group life contracts with full profit sharing are valued according to the terms of the related contracts. For more information refer to note 15 on page 101.

Total return of these investments is accounted for in the technical account life insurance on a separate line.

	2003	2002
Balance at January 1	94,728	113,272
Acquired	25,177	31,452
Disposed and redeemed	(21,068)	(25,918)
Investment income including revaluations	12,858	(11,524)
Currency exchange rate differences and other changes	(11,606)	(12,554) <sup>1</sup>
<b>BALANCE AT DECEMBER 31</b>	<b>100,089</b>	<b>94,728</b>

<sup>1</sup> Including reallocation to the general account investments for an amount of EUR 1,278 million due to the final settlement of the Diversified Investment Advisors acquisition.

## 6 RECEIVABLES OUT OF DIRECT INSURANCE

	2003	2002
Policyholders	2,425	1,666
Agents	100	449
<b>TOTAL RECEIVABLES OUT OF DIRECT INSURANCE</b>	<b>2,525</b>	<b>2,115</b>

The provision for doubtful debts for these receivables amounts to EUR 135 million (2002: EUR 149 million).

## 7 OTHER RECEIVABLES

	2003	2002
Investment receivables	481	110
Taxes and social security	131	0
Other	475	1,028
<b>TOTAL OTHER RECEIVABLES</b>	<b>1,087</b>	<b>1,138</b>

Other receivables mature within one year. The provision for doubtful debts for other receivables amounts to EUR 43 million (2002: EUR 11 million).

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

### 8 EQUIPMENT

Equipment is shown at original cost less depreciation over the estimated useful life.

	Data processing systems	Office furniture and other equipment	Total equipment
Total cost of equipment			843
Accumulated depreciation			(450)
Balance at January 1, 2003	305	88	393
Investments	56	41	97
Depreciation	(87)	(29)	(116)
Disposals and other changes	(36)	(19)	(55)
<b>BALANCE AT DECEMBER 31, 2003</b>	<b>238</b>	<b>81</b>	<b>319</b>
Accumulated depreciation			458
Total cost of equipment			777

### 9 LIQUID ASSETS

	2003	2002
Cash on hand and balances with banks	980	1,146
Short-term investments	665	441
<b>TOTAL LIQUID ASSETS</b>	<b>1,645</b>	<b>1,587</b>

Liquid assets are at free disposal.

### 10 OTHER PREPAYMENTS AND ACCRUED INCOME

	2003	2002
Prepaid pension costs on employee plans	1,450	1,730
Other prepayments and accrued income	231	215
<b>TOTAL OTHER PREPAYMENTS AND ACCRUED INCOME</b>	<b>1,681</b>	<b>1,945</b>

For an explanation of the prepaid pension costs on employee plans, refer to page 116.

### 11 SHAREHOLDERS' EQUITY

For the notes to the share capital, reserves, stock appreciation rights and stock options, refer to page 137 and following.



<b>12 CAPITAL SECURITIES</b>		<b>2003</b>	<b>2002</b>
Perpetual cumulative subordinated debenture loans		1,517	1,517
Trust Pass-through Securities		408	491
		<b>1,925</b>	<b>2,008</b>
<b>PERPETUAL CUMULATIVE SUBORDINATED DEBENTURE LOANS</b>			
	Year <sup>1</sup>		
Interest rate 8%, coupon date June 8	2005	114	114
Interest rate 7 $\frac{7}{8}$ %, coupon date September 29	2005	114	114
Interest rate 7 $\frac{3}{4}$ %, coupon date December 15	2005	136	136
Interest rate 7 $\frac{1}{8}$ %, coupon date March 4	2011	203	203
Interest rate 7 $\frac{5}{8}$ %, coupon date July 10	2008	114	114
Interest rate 7 $\frac{1}{4}$ %, coupon date October 14	2008	136	136
Interest rate 6 $\frac{7}{8}$ %, coupon date December 20	2005	700	700
<b>TOTAL PERPETUAL CUMULATIVE SUBORDINATED DEBENTURE LOANS</b>		<b>1,517</b>	<b>1,517</b>

<sup>1</sup> Year of first call.

The coupons for the EUR 114 million 8% bonds are set at 8% until June 8, 2005. The coupons for the EUR 203 million 7 $\frac{1}{8}$ % bonds are set at 7 $\frac{1}{8}$ % until March 4, 2011, while the EUR 136 million 7 $\frac{1}{4}$ % bonds are set at 7 $\frac{1}{4}$ % until October 14, 2008. On these dates, and after every consecutive period of ten years, the coupons will be reset at the then prevailing yield of 9-10 year Dutch government bonds plus a surcharge of 0.85%. The coupons of the other four loans are fixed.

The loans have the same subordination provisions as dated subordinated debt. In addition, the conditions of the loans contain certain provisions for interest deferral and for the availability of principal amounts to meet losses.

Although the loans have no stated maturity, AEGON has the right to call the loans for redemption at par for the first time on the coupon date in the years as specified above. AEGON has the right to call the loans for redemption at par on every tenth year thereafter on the coupon date, with the exception of the EUR 700 million 6 $\frac{7}{8}$ % bond. This bond is callable every year on the coupon date after the initial call date in 2005.

The market value of these loans amounts to EUR 1,589 million (2002: EUR 1,573 million).

		<b>2003</b>	<b>2002</b>
<b>TRUST PASS-THROUGH SECURITIES</b>			
This item comprises the following loans			
USD 100 million 7 $\frac{4}{5}$ % Capital Trust Pass-through Securities	1996/2026	79	95
USD 225 million 7 $\frac{13}{20}$ % Capital Trust Pass-through Securities	1996/2026	178	215
USD 190 million 7 $\frac{5}{8}$ % Capital Trust Pass-through Securities	1997/2037	151	181
<b>TOTAL TRUST PASS-THROUGH SECURITIES</b>		<b>408</b>	<b>491</b>

Capital Trust Pass-through Securities (TRUPS) are securities through which the holders participate in a trust. The assets of these trusts consist of junior subordinated deferrable interest debentures of Transamerica Corporation. The trusts have been included in the consolidated financial statements. The TRUPS carry certain provisions with regard to deferral of distributions. Earlier redemption is possible for the USD 100 million 7 $\frac{4}{5}$ % TRUPS on or after December 1, 2006.

The market value of these loans amounts to EUR 509 million (2002: EUR 686 million).

<b>13 SUBORDINATED LOANS</b>		Remaining terms			<b>Total</b>	<b>Total</b>
		between 1-3 years	between 4-5 years	over 5 years	<b>2003</b>	<b>2002</b>
EUR 227 million floating rate/fixed rate		158	–	–	158	159
EUR 125 million 6 $\frac{1}{2}$ %		–	–	–	–	98
USD 400 million 8%		209	–	–	209	252
Other subordinated loans		51	–	34	85	107
<b>TOTAL SUBORDINATED LOANS</b>		<b>418</b>	<b>0</b>	<b>34</b>	<b>452</b>	<b>616</b>

These loans are subordinated to all other liabilities and borrowings. The interest rates vary from 6.51% to 8.25%.

The market value of these loans amounts to EUR 495 million (2002: EUR 647 million).

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

### 14 TECHNICAL PROVISIONS

	Balance at January 1, 2003	Increase charged to the income statement	Exchange rate fluctuations and other changes	Balance at December 31, 2003
<b>LIFE INSURANCE:</b>				
Life insurance	49,245	2,257	(5,312)	46,190
Fixed annuities	40,063	1,798	(6,306) <sup>1</sup>	35,555
GICs and funding agreements	24,755	676	(3,888) <sup>2</sup>	21,543
	114,063	4,731	(15,506)	103,288
Deferred policy acquisition costs	(14,089)			(12,447)
Unamortized interest rate rebates	(389)			(361)
<b>SUBTOTAL LIFE INSURANCE</b>	<b>99,585</b>			<b>90,480</b>
<b>NON-LIFE INSURANCE:</b>				
Unearned premiums and unexpired risks	1,782	168	(269)	1,681
Deferred policy acquisition costs	(1,109)			(947)
	673			734
Claims outstanding	1,840	156	(173)	1,823
<b>SUBTOTAL NON-LIFE INSURANCE</b>	<b>2,513</b>			<b>2,557</b>
<b>PROFIT SHARING AND REBATES</b>	<b>304</b>			<b>306</b>
<b>OTHER</b>	<b>512</b>	<b>0</b>	<b>16</b>	<b>528</b>
<b>TOTAL</b>	<b>102,914</b>	<b>5,055</b>		<b>93,871</b>

<sup>1</sup> Of which the balance of deposits and withdrawals is EUR 625 million.

<sup>2</sup> Of which the balance of deposits and withdrawals is EUR 170 million.

#### LIFE INSURANCE

The provision for *life insurance* represents the present value of future benefits to be paid to, or on behalf of policyholders and related expenses less the present value of future net premiums. The provision is calculated using actuarial methods that include assumptions such as estimates of premiums, mortality, investment performance, lapses, surrenders and expenses. These assumptions are initially based on best estimates of future experience at policy inception date, in some instances taking into account a margin for the risk of adverse deviation. The assumptions used are regularly reviewed, compared to actual experience and, if necessary and depending on the type of products, updated.

Included in premiums is a loading for expenses. When the premiums are actually received or become receivable, the loadings emerge and are available to offset actual expenses, including maintenance expenses, non-deferrable acquisition expenses and amortization of the deferred policy acquisition costs (DPAC).

For products that have guaranteed benefits over the lifetime of the policy or at maturity, the premiums also include loadings for the expected cost of the guarantee. The pricing of the guarantee is based on assumptions for future investment performance, including reinvestment assumptions. Part of the risk is covered by reinsurance contracts.

The provision for life insurance comprises also the provision for unexpired risks as well as the provision for claims outstanding. In case the premium-paying period is shorter than the lifetime of the policy, a provision for future expenses is set up to cover any estimated future expenses after the premium-paying period. Future costs in connection with benefit payments are also provided for.

The technical provision for life reinsurance assumed is included in this provision as well, and amounts to EUR 2,404 million (2002: EUR 2,966 million).

The average interest rate used is 5.18% (2002: 5.04%). Taking into account the capitalized interest rate rebates, the average interest rate used is 5.38% (2002: 5.25%).

In various countries products are sold that contain minimum guarantees. For these products the regular technical provision is recognized under technical provisions with investments for account of policyholders. The technical provision life insurance includes provisions for guaranteed minimum benefits related to contracts where the policyholder otherwise bears the investment risk. The main guarantees are summarized below:

Amounts in millions		2003	2002
<b>PROVISIONS</b>			
Guaranteed minimum benefits on variable products in the United States	USD	285	269
Guaranteed minimum accumulation benefits on segregated funds in Canada	CAD	166	126
Guaranteed return on certain 'fund plan' and group life products in The Netherlands	EUR	278	236

In the United States, a common feature in variable annuities is a guaranteed minimum death benefit (GMDB). This means that when the insured dies, the beneficiaries receive either the account balance or the guaranteed amount, whichever is higher. The latter is calculated using the total deposits made by the contract holder less any withdrawals and sometimes includes a roll-up or step-up feature that increases the guarantee with interest or with increases in the account value, respectively.

The provision for life insurance includes a provision in connection with the guarantees issued. A cap and a floor for this provision is calculated using stochastic prospective methods (probability weighted calculation using multiple future scenarios) and current assumptions. Within the cap and floor corridor, the accrual method based on pricing assumptions with valuation interest less actual claims incurred is followed. Outside the cap and floor corridor, a surplus or shortfall of the provision will cause an extra credit or charge to the income statement.

In Canada, the variable annuity products sold are known as segregated funds. Segregated funds are similar to mutual funds, but with a "capital protection guarantee" for mortality and maturity. The initial guarantee period is 10 years. The 10 year period may be reset at the clients' option. The management expense ratios (MERs) applied to the funds are not guaranteed and can be increased at AEGON's discretion. The provisions for the minimum guarantees on segregated funds are established consistent with the method described for the minimum guarantees on the variable annuity contracts sold in the United States.

In the Netherlands, Fundplan policies have a guaranteed return of 3% or 4% at maturity or upon the death of the insured if premium paid for a consecutive period of ten years is invested in the Mix Fund and/or the Fixed Income Fund. For this guaranteed return a provision is established based on stochastic modelling. The provision is developed applying the accrual method based on pricing assumptions less actual claims incurred. A corridor for the provision is determined regularly based on stochastic modelling methods. If the provision develops outside the corridor, a charge or credit to the income statement is recorded. Minimum interest guarantees on group pension contracts in the Netherlands are given for nominal benefits, based on the 3% or 4% actuarial interest, after retirement of the employees. Due to the nature of the product, these guarantees have a long-term horizon of about 30 to 60 years. The provision is developed applying the accrual method based on pricing assumptions less actual deductions.

Provisions for *fixed annuities* relate to annuity contracts sold in the United States and Canada. Fixed annuities are typically single premium insurance products where the paid-in amounts accumulate with interest credits less applicable loads or fees. The interest crediting rate is fixed during a period, at the end of which it can be reset by the company. The funds grow on a tax deferred basis and have significant long-term savings characteristics. The benefit reserves are equal to the full accumulated contract values.

The provision for *GICs and funding agreements* is the amount due for these products which are sold in the United States to a broad array of institutional customers including defined contribution plans, defined benefit plans, public employee plans, municipalities, money market funds, and United States and overseas investors. GICs are generally issued to tax-qualified plans while funding agreements are issued to non-qualified institutional investors both in domestic and international markets. AEGON utilizes consolidated special purpose entities linked to medium term notes or asset backed commercial paper for the issuance of certain funding agreements. Under these programs, the proceeds of each note series or commercial paper issuance are used to purchase a funding agreement from an AEGON insurance company, which is used to secure that particular series. The payment terms of any particular series substantially match the payment terms of the funding agreement that secures that series. The benefit provisions are equal to the full accumulated contract values.

The account balances at December 31, 2003 consist of fixed rate, fixed maturity contracts (45%), floating rate, indeterminate maturity contracts (22%), floating rate, fixed maturity contracts (28%), and market indexed, fixed maturity contracts (5%). Most of the fixed rate contracts are swapped to floating rate via swap agreements. Credited interest on floating rate contracts reset mostly on a monthly basis on various indices. Indeterminate maturity contracts allow the customer to withdraw funds with advance notice periods ranging from three to thirteen months without a withdrawal penalty. Market indexed contracts provide a return based on the market performance of a designated index, such as the S&P 500. Futures or swap contracts are used to hedge the market risk and effectively convert the contracts to a floating rate.

Major components of GICs and funding agreements are summarized as follows:

	2003	2002
Liabilities for GICs and funding agreements:		
Guaranteed investment contracts issued to defined contribution/benefit plans	3,386	4,782
Medium Term Note funding agreements issued to a special purpose entity	6,444	7,424
Cash market funding agreements	4,992	6,136
Municipal/governmental funding agreements	3,939	4,794
Other funding agreements	2,782	1,619
Total liabilities for GICs and funding agreements	21,543	24,755

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

The following table presents provisions for guaranteed investment contracts and funding agreements by withdrawal regulation:

	2003	2002
Book value out <sup>1</sup>		
Putable:		
90 days' put	1,281	1,650
180 days' put	634	764
364 days'+ put	2,835	3,310
Total putable	4,750	5,724
Market value out <sup>2</sup>		
90 days' notice	953	1,370
180 days' notice	173	120
Total market value out	1,126	1,490
Not putable or surrenderable	15,667	17,541
Total GICs and funding agreements	21,543	24,755

<sup>1</sup> Book value out: the amount equal to the sum of deposits less withdrawals with interest accrued at the contractual interest rate.

<sup>2</sup> Market value out: the amount equal to the book value out plus a market value adjustment to adjust for changes in interest rates.

The municipal/governmental funding agreements generally include downgrade pursuant to which, should various downgrade events be triggered, one of the following four options must be followed:

- transfer contract to a higher rated party
- purchase a credit enhancement
- collateralize the underlying position
- pay the contract out at book value

These options are negotiated with the customer at contract issuance but AEGON unilaterally retains the ultimate decision-making capability in the event of a downgrade. Available collateral is monitored to ensure the company would be able to utilize this option at its discretion.

As of December 31, 2003, the contractual maturities for all contracts with defined maturities were for 2004: EUR 3,733 million; for 2005: EUR 3,289 million; for 2006: EUR 2,855 million; for 2007: EUR 2,031 million; for 2008: EUR 940 million; and thereafter EUR 3,917 million.

	2003	2002
<b>DEFERRED POLICY ACQUISITION COSTS</b>		
Balance at January 1	14,089	15,264
Deferred during the year	1,847	2,486
Amortization charged to the income statement <sup>1</sup>	(1,455)	(1,520)
Other changes <sup>2</sup>	(2,034)	(2,141)
<b>BALANCE AT DECEMBER 31</b>	<b>12,447</b>	<b>14,089</b>
Of which value of business acquired life (VOBA)	3,706	4,968

<sup>1</sup> Of which accelerated amortization is EUR 129 million (2002: EUR 450 million).

<sup>2</sup> Mainly caused by currency exchange rate differences.

These policy acquisition costs are costs that are directly or indirectly related to the acquisition of new or renewal life insurance contracts. Such costs consist principally of commissions, certain marketing, underwriting and contract issue expenses. Policy acquisition costs are deferred (DPAC) to the extent that they are recoverable from future expense charges in the premiums or from expected gross profits, depending on the nature of the contract. Acquisition costs are also deferred for certain non-insurance investment type products related to 401(k) plans in the United States. DPAC are deducted from the technical provision life insurance.

For *fixed premium products*, DPAC are amortized to the income statement in proportion to the premium revenue recognized. The amortization of DPAC is based on management's best estimate assumptions established at policy issue, including assumptions for mortality, lapses, expenses and investment returns. A margin for adverse deviation is included in the assumptions. DPAC are tested by country unit and product line to assess recoverability at least annually. The portion of DPAC that is determined to be not recoverable will be recognized as an expense in the income statement in the period of determination.

For *flexible premium products*, including fixed and variable annuities, variable universal life and unit-linked contracts, amortization of DPAC is based on expected gross profits, which are determined based on management's best estimates as to future expectations. These estimates include but are not limited to: an economic perspective in terms of long-term bonds and equity returns, mortality, disability and lapse assumptions, maintenance expenses, and future expected inflation rates. DPAC for flexible premium insurance contracts and investment type contracts are amortized in proportion to the emergence of estimated gross profits over the life of the contracts.

Movements in equity markets can have a significant impact on the value of the flexible contract accounts and the fees earned on these accounts. As a result estimated future gross profits increase or decrease with these movements. Similarly, changes in interest rate spreads for fixed annuity products (interest credited less interest earned) will affect management's assumptions with respect to estimated gross profits.

In the United States (and Canada), DPAC are amortized at a constant rate based on the present value of the estimated gross profit amounts expected to be realized over the life of the policies. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted. A significant assumption related to estimated gross profits on variable annuities and life insurance products is the annual net long-term growth rate of the underlying assets. As equity markets do not move in a systematic manner, assumptions are made as to the net long-term growth rate after considering the net effects of short-term variances from the long-term assumptions (a "reversion to the mean" assumption). At December 31, 2003 the reversion to the mean assumptions for variable products, primarily annuities in the United States, were as follows: gross long-term equity growth rate was 9% (2002: 9%), gross short term growth rate was 7½% (2002: 12%), the reversion period for the short term rate is five years, the gross short and long term fixed security growth rate was 6% and the gross short and long term growth rate for money market funds was 3½%. For Canada these assumptions, at December 31, 2003, were as follows: gross long-term equity growth rate was 9½% (2002: 9½%), gross short-term growth rate was 10¾% (2002: 12½%). The reconsideration of assumptions may affect the original DPAC amortization schedule, referred to as DPAC unlocking. The difference between the original DPAC amortization schedule and the revised schedule, which is based upon estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

In the Netherlands, the United Kingdom and other countries the impact of equity market movements on estimated gross profits is covered by the yearly or, if appropriate, quarterly recoverability testing; a negative outcome is charged to the income statement in the period of determination. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted for future periods.

Included in the DPAC is an amount of value of business acquired (VOBA) resulting from acquisitions, which is equal to the present value of estimated future profits of insurance policies in force related to business acquired at the time of the acquisition and is in its nature the same as deferred policy acquisition costs and also subject to the same recoverability testing. The VOBA is amortized against expense loadings included in the premiums of the acquired portfolios or for acquired unit-linked business against charges arising from the related acquired business.

The changes in the carrying value of the VOBA (life and non-life) were as follows:

	2003	2002
Balance at January 1	5,347	7,158
Amortization charged to the income statement	(444)	(719)
Other changes <sup>1</sup>	(953)	(1,092)
<b>BALANCE AT DECEMBER 31</b>	<b>3,950</b>	<b>5,347</b>

<sup>1</sup> Mainly caused by currency exchange rate differences.

	2003	2002
<b>UNAMORTIZED INTEREST RATE REBATES</b>		
Balance at January 1	389	424
Rebates granted during the year	38	50
Amortization charged to the income statement	(72)	(84)
Other changes	6	(1)
<b>BALANCE AT DECEMBER 31</b>	<b>361</b>	<b>389</b>

Interest rate rebates granted are amortized over the period of the contracts concerned in yearly increasing amounts.

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

### NON-LIFE INSURANCE

*Unearned premiums* represent the unearned part of premiums received for both property and casualty insurance and for accident and health insurance. The provision for *unexpired risks* includes a provision to compensate for the increasing age of persons insured under health and personal accident policies.

	2003	2002
<b>DEFERRED POLICY ACQUISITION COSTS</b>		
Balance at January 1	1,109	1,202
Deferred during the year	291	401
Amortization charged to the income statement	(273)	(328)
Other changes <sup>1</sup>	(180)	(166)
<b>BALANCE AT DECEMBER 31</b>	<b>947</b>	<b>1,109</b>
Of which value of business acquired non-life (VOBA)	244	379

<sup>1</sup> Mainly caused by currency exchange rate differences.

These policy acquisition costs are costs that are directly or indirectly related to the conclusion or renewal of non-life insurance contracts. The deferred policy acquisition costs are deducted from the technical provision for unearned premiums and include both renewal commission paid related to unearned premiums, amortized over the related premium period, and first year commission on health insurance policies, amortized over the contract period.

	2003	2002
<b>CLAIMS OUTSTANDING</b>		
Balance at January 1	2,315	2,398
Less reinsurance recoverables	(475)	(486)
Net balance	1,840	1,912
Incurred related to:		
– current year	1,363	1,506
– prior years	(25)	18
Total incurred	1,338	1,524
Paid related to:		
– current year	(654)	(738)
– prior years	(553)	(700)
Total paid	(1,207)	(1,438)
Other changes	(148)	(158)
Net balance at December 31:		
– current year	710	768
– prior years	1,113	1,072
	1,823	1,840
Plus reinsurance recoverables	421	475
<b>BALANCE AT DECEMBER 31</b>	<b>2,244</b>	<b>2,315</b>

The provision for *claims outstanding* relates to claims incurred in the current and previous years, still unsettled at year-end. Calculation takes place either on an item by item basis or on the basis of statistical information, taking into account claims incurred but not yet reported. In calculating the provision, the future costs of processing claims are considered.

A different method is applied to marine, aviation and transport insurance. The calculation is based on the 'underwriting years system' with premiums deferred and claims combined in a fund.

### PROFIT SHARING AND REBATES

This provision consists of the amounts earmarked for insured or beneficiaries, as far as their accounts have not yet been credited.

### OTHER TECHNICAL PROVISIONS

This consists mainly of insurance deposits under Dutch group life contracts, which are designated for improvement of retirement benefits under such contracts. Maturity is undetermined. Interest credited to such deposits is linked with the average yield on long-term Dutch government bonds.



## REINSURANCE AMOUNT CEDED

The following amounts on account of reinsurance ceded have been deducted from the technical provisions:

	2003	2002
Life insurance	2,075	2,193
Unearned premiums and unexpired risks	318	322
Claims outstanding	421	475
	<b>2,814</b>	<b>2,990</b>

Reinsurance premiums, commissions and claims settlements, as well as technical provisions relating to reinsurance, are accounted for in the same way as the original contracts for which the reinsurance was concluded. Reinsurers' share in technical provisions resulting from reinsurance agreements are deducted from the liabilities relating to the original insurance contracts.

At December 31, 2003, there were no reinsurance receivables associated with a single reinsurer with a carrying value in excess of 5% of total assets.

AEGON insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a coinsurance, yearly renewable term, quote share, excess or catastrophe excess basis. These reinsurance agreements spread the risk and reduce the effect of losses. The amount of each risk retained depends on its evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on characteristics of coverages. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, AEGON insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. To limit this risk, reinsurance treaties are entered into with only well capitalized, highly rated reinsurers. Where deemed appropriate additional protection is arranged through letters of credit or trust arrangements.

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 business, 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.

## 15 TECHNICAL PROVISIONS WITH INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS

	Balance at January 1, 2003	Increase debited to the income statement	Exchange rate fluctuations and other changes	Balance at December 31, 2003
Provisions gross	95,904			102,176
Ceded to reinsurers	(1,176)			(2,087)
<b>PROVISIONS FOR INSURANCE OF WHICH THE POLICYHOLDER BEARS THE INVESTMENT RISK AND FOR INSURANCE-LINKED SAVINGS DEPOSITS</b>	<b>94,728</b>	<b>14,141</b>	<b>(8,780)</b>	<b>100,089</b>

This provision includes variable annuities, variable universal life, unit-linked insurance contracts, separate investment funds group life, insurance-linked savings deposits and the liabilities of AEGON UK with-profit funds (EUR 23,180 million). The amount of EUR 14,141 million debited to the income statement is the total of premium receipt and benefits of EUR 1,283 million and the investment income for account of policyholders amounting to EUR 12,858 million.

The provisions are generally shown at book value of the related investments.

The provisions include an amount of EUR 1,465 million (2002: EUR 1,239 million) for pension provisions regarding own employees, primarily in the Netherlands and the United Kingdom.

As some products have a minimum guaranteed benefit amount, a provision for this benefit is accumulated during the term of the related portfolio and has been included in the technical provisions life insurance.

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

<b>16 PROVISIONS</b>	<b>2003</b>	<b>2002</b>
Provisions for taxation	<b>1,753</b>	<b>1,824</b>

The provisions for taxation are of a long-term nature. This caption includes both deferred taxation as well as other long-term tax liabilities.

The deferred taxation is calculated on the basis of the difference between book value and valuation for tax purposes of the appropriate assets and liabilities. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available.

The provision is equal to the discounted value of the future tax amounts. In the calculation discounted tax rates ranging from 0% to nominal rates are used, taking into account the estimated term to maturity of the related differences.

Nominal value of these tax amounts is EUR 2,423 million.

As at December 31, the provisions for taxation consist of:

	<b>2003</b>	<b>2002</b>
Deferred tax liabilities relating to:		
Investments	308	298
Deferred policy acquisition costs	2,772	3,169
Other	1,094	917
	<b>4,174</b>	<b>4,384</b>
Deferred tax assets relating to:		
Technical provisions	796	1,147
Operating losses carried forward	779	564
Investments	846	849
	<b>2,421</b>	<b>2,560</b>
	<b>1,753</b>	<b>1,824</b>
Total tax losses carried forward	2,452	1,839
Tax losses carried forward not recognized within deferred tax assets	(201)	(194)
Tax losses carried forward recognized within deferred tax assets	2,251	1,645
Average tax rate	34.5%	34.3%
Total tax losses carried forward as at December 31, by terms of expiration:		
Up to five years	76	188
Five to ten years	9	12
Ten to twenty years	1,250	1,294
Unlimited	1,117	345
Total tax losses carried forward	<b>2,452</b>	<b>1,839</b>

## 17 LONG-TERM LIABILITIES

	less than 1 year	between 1-3 years	between 4-5 years	Remaining terms over 5 years	<b>Total 2003</b>	<b>Total 2002</b>
<b>CAPITAL MARKET:</b>						
Borrowings	1,016	1,043	972	961	3,992	3,313
<b>OTHER:</b>						
Miscellaneous long-term liabilities	209	109	108	274	700	543
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>1,225</b>	<b>1,152</b>	<b>1,080</b>	<b>1,235</b>	<b>4,692</b>	<b>3,856</b>

The repayment periods of borrowings vary from in excess of one year up to a maximum of 50 years. The coupons vary from 1.49% to 10% per annum. Borrowings include debenture loans for EUR 2,837 million.

The market value of total long-term liabilities amounts to EUR 5,053 million (2002: EUR 3,679 million).

The following table provides the detail of long-term liabilities:

	Period	Coupon date	2003	2002
USD 100 mln 9¾% Domestic Debentures (Transamerica Corp.)	1996/08	March/Sept 1	79	95
USD 200 mln 6¾% Domestic Debentures (Transamerica Corp.)	1996/06	May/Nov 15	158	191
CHF 150 mln 3¼% Bonds	1997/04	June 24	96	103
DEM 150 mln 2½% Eurobonds	1998/03	February 24	0	77
USD 500 mln 7% Eurobonds (AEGON Funding Corp.)	1999/04	September 10	396	477
CHF 300 mln 3½% Eurobonds	1999/04	September 27	193	206
GBP 250 mln 6½% Eurobonds	1999/31	December 15	355	384
USD 250 mln 7¾% Eurobonds (AEGON Funding Corp.)	2000/05	July 25	198	238
EUR 350 mln 4¾% Eurobonds (AEGON Funding Corp. II)	2001/05	February 28	350	350
CHF 150 mln MTN floating	2001/04	Semi-annual	96	103
EUR 100 mln MTN floating	2001/03	Semi-annual	0	100
USD 90 mln MTN floating	2001/03	Semi-annual	0	86
USD 200 mln MTN floating	2002/04	Quarterly	160	191
USD 90 mln MTN fixed	2002/03	April 10	0	86
USD 60 mln MTN floating	2002/03	Quarterly	0	57
USD 100 mln MTN floating	2002/03	Monthly	0	95
USD 50 mln MTN fixed	2002/03	March 28	0	48
USD 250 mln floating rate senior notes	2003/05	Quarterly	198	0
JPY 10,000 mln MTN floating	2003/05	Semi-annual	74	0
EUR 1,000 mln MTN 4⅝%	2003/08	April 16	1,000	0
USD 750 mln 4¾% senior notes	2003/13	Semi-annual	594	0
Other <sup>1</sup> (including swaps)			745	969
			<b>4,692</b>	<b>3,856</b>

<sup>1</sup> Of which EUR (58) million relate to AEGON N.V. (2002: EUR 82 million).

#### 18 OTHER PAYABLES

	2003	2002
Investment creditors and other creditors	1,710	1,185
Taxes and social security	0	165
Other	1,981	2,136
<b>TOTAL OTHER PAYABLES</b>	<b>3,691</b>	<b>3,486</b>

#### 19 ACCRUALS AND DEFERRED INCOME

	2003	2002
Accrued interest	675	459
Deferred gains and losses on fixed rate investments	1,223	431
<b>TOTAL ACCRUALS AND DEFERRED INCOME</b>	<b>1,898</b>	<b>890</b>

#### CAPITAL AND SOLVENCY

AEGON's capital base reflects the capital employed in insurance activities and consists of shareholders' equity, capital securities and dated subordinated and senior debt. AEGON manages its capital base to comprise at least 70% shareholders' equity, between 5% and 15% capital securities, and a maximum of 25% subordinated and senior debt.

	2003	in %	2002	in %
Shareholders' equity	14,132	71.4	14,231	70.9
Capital securities	1,925	9.7	2,008	10.0
Subordinated loans	452	2.3	616	3.1
Senior debt related to insurance activities	3,288	16.6	3,203	16.0
<b>Total capital base</b>	<b>19,797</b>	<b>100.0</b>	<b>20,058</b>	<b>100.0</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

Both insurance and banking companies are required to maintain a minimum solvency margin based on local directives. AEGON's insurance subsidiaries in the United States are subject to risk based capital standards, established by the National Association of Insurance Commissioners (NAIC). At December 31, 2003, the combined risk based capital ratio of AEGON's life insurance subsidiaries in the United States was 330%. Under the Insurance Industry Supervision Act 1993 in the Netherlands, life insurance companies are required to maintain equity of 4% of general account technical provisions and, in case of no interest guarantee, 1% of technical provisions with investments for account of policyholders. At December 31, 2003, the solvency as a percentage of the locally required solvency margin was well in excess of the minimum ratio. The Financial Services Authority (FSA) regulates insurance companies in the United Kingdom under the Financial Services and Markets Act 2000 and sets minimum standards for capital adequacy and solvency. At December 31, 2003, the free assets ratio of Scottish Equitable plc was 11%.

The required solvency margin shown below is the sum of the individual margins of all AEGON's insurance and banking companies based on European directives. Liability capital available includes shareholders' equity, capital securities and subordinated loans of the group. The solvency position of the group has been outlined in the following table:

	2003	2002
Liability capital of the group	16,509	16,855
Required solvency margin	7,354	7,825
Solvency surplus	9,155	9,030
Solvency as a percentage of required solvency margin	224	215

AEGON is subject to legal restrictions on the amount of dividends it can pay to its shareholders. Under Dutch law the amount that is available to pay dividends consists of total shareholders' equity less the issued and outstanding capital and less the reserves required by law. At December 31, 2003, the issued and outstanding capital is EUR 238 million, the reserves required by law amount to EUR 1,393 million and EUR 12,501 million is available for dividends. However, certain of AEGON's subsidiaries, principally insurance companies, are subject to restrictions on the amount of funds they may transfer in the form of cash dividends or otherwise to their parent companies. While management does not believe such restrictions on AEGON's subsidiaries will affect its ability to pay dividends in the future, there can be no assurance that these restrictions will not limit or prevent AEGON from doing so.

### DERIVATIVES

AEGON uses common derivative financial instruments such as swaps, options, futures and cross-currency derivatives to hedge its exposures related to investments, liabilities and borrowings. In general, the accounting treatment of derivatives mirrors the accounting treatment of the underlying financial instrument. In the balance sheet, the book values of the derivatives are recognized under the captions of the related underlying financial instrument. Foreign currency amounts are converted at the year-end exchange rates. Realized and unrealized results on derivative financial instruments are recognized in the same period and likewise as the results of the related investments, liabilities and debt.

Interest rate contracts, which include swaps, swaptions, caps, floors and forward rate agreements are used to manage AEGON's exposure to interest rate risks. These contracts are designated individually or in groups to specific assets, liabilities or borrowings at inception of the contracts.

An interest rate swap is an agreement between two parties to exchange, at specific dates, the difference between a fixed interest rate and/or a floating interest rate payment on a predetermined principal amount. An interest rate basis swap generally provides for the exchange of the difference between a floating interest rate on one index to a floating interest rate of another index on a pre-determined principal amount. The principal amount is not exchanged, and usually the fixed and floating payments are netted, thus limiting actual cash outlay. The differential to be paid or received is recognized as an adjustment to interest expense over the term of the contract. AEGON may also enter into forward-starting interest rate swaps to lock-in the current forward rate. The accrual of income begins at the forward date, rather than at the inception date.

A swaption is an option to enter into an interest rate swap at a specific future date. A call or receiver swaption is the right but not the obligation to receive the fixed rate payments and a put or payer swaption is the right but not the obligation to pay the fixed rate payments on a certain interest rate swap. By entering into swaption contracts, AEGON is able to lock-in future interest rates and thus limiting reinvestment risk. Premiums paid for swaptions are deferred and amortized to interest expense on a straight-line basis over the term of the contract.

An interest rate cap is an agreement under which the seller, in return for an upfront payment, agrees to pay the buyer the difference between the higher market interest rate and a certain strike rate or cap for a certain period of time on a specified notional amount. Under an interest rate floor agreement, the seller pays the buyer if the interest rates are below the specified strike rate or floor. Interest rate caps are used to limit the impact of rising rates, whereas interest rate floors are used to ensure minimum interest income when rates decline. Premiums paid for purchased interest rate cap or floor agreements are capitalized and amortized to interest expense over the term of the contract.

Forward rate agreements are commitments to purchase or sell a financial instrument at a future date for a specific price and are used to hedge short-term interest movements, in particular, for future investments or short-term borrowings. Forward rate agreements settle in cash at a specific future date based on the differential between agreed interest rates applied to a notional amount. Payments or receipts are recognized as interest income or interest charge at the moment of cash settlement.

Cross currency swap agreements are contracts to exchange two principal amounts of two currencies at the prevailing exchange rate at inception of the contract. During the life of the swap the counterparties exchange fixed or floating rate interest payments in the swapped currencies and at maturity the principal amounts are again swapped at a pre-determined rate of exchange. Cross currency swaps are used to manage the company's exposure to foreign exchange rate fluctuations of both assets and liabilities. AEGON uses cross currency swaps to allow investments, product offerings and borrowings to be made in foreign currencies, gaining access to additional markets and sources of funding while eliminating foreign exchange risk. Cross currency swaps are recognized in the balance sheet as an adjustment to long-term liabilities and in the income statement in investment income, benefits to policyholders or miscellaneous income and expenditure - currency exchange rate differences. The amount recognized represents the currency exchange difference on the notional amount at period-end rates.

A forward foreign exchange contract is an agreement that obligates its parties to deliver certain quantities of currencies at a specified exchange rate at a specified future date. These contracts are primarily used to hedge foreign currency risk of investments.

An equity swap is a swap agreement in which one party makes payments based on either a floating index or a fixed-rate, while the other party makes payments based on the return of an equity index, basket, or single stock. Equity swaps (excluding the total return swap agreement between AEGON N.V. and Vereniging AEGON) are valued at market value with changes going through the income statement.

Options are contracts that give the option purchaser the right, but not the obligation, to buy or sell, at or before a specified future date, a financial instrument at a specified price. Purchased options are carried at market value, while options sold are carried at the premium received. Unrealized gains (losses) on options are recognized in equity or current liabilities.

Futures contracts are carried at market value and require daily cash settlement. Changes in the market value of interest rate futures that qualify as hedges are deferred and recognized as an adjustment of the hedged item, while changes in the market value of equity futures are recognized in income.

Credit derivatives are contracts between two parties that allow for transfer of credit risk from one party to another. The party transferring risk away has to pay a fee to the party that takes the risk. A commonly used credit derivative instrument is a credit default swap. A credit default swap allows the transfer of third party credit risk from one party to another. In essence, the buyer of a credit default swap is insured against third party credit losses. If the third party defaults, the party providing insurance will have to purchase the defaulted asset from the insured party. In turn, the insurer pays the insured the remaining interest on the debt and the principal. Credit derivatives are used to hedge credit exposures or to create synthetic credit exposure.

Credit derivatives have also been used to add credit risk by selling credit protection in the form of single name credit default swaps and AAA rated tranches of synthetic collateralized debt obligations. Credit derivatives are also used to synthetically replicate corporate credit exposures. This involves the purchase of high quality low risk assets and the sale of credit derivatives. The program is designed to purchase credits that are already subject to review by AEGON's bond credit desk but may not be available under the same terms and conditions in the cash bond market.

AEGON engages in both exchange-traded derivatives contracts as well as over-the-counter (OTC) derivatives transactions. Because of its OTC derivatives positions, AEGON is exposed to counterparty credit risk. Counterparty credit risk is the risk of loss from a counterparty failing to meet its obligations according to the terms of the contract. AEGON continually monitors its position and the credit ratings of the counterparties to these derivative instruments. AEGON believes the risk of loss due to nonperformance by its counterparties is low due to their high credit quality. All OTC transactions are governed by ISDA Master Agreements, which allow for netting of positions with one specific counterparty.

The following table represents aggregate notional amounts of derivatives, held in the general account portfolio. The amounts listed for interest rate contracts will not be exchanged by parties and, thus, do not reflect an exposure of the company to market movements. The amounts listed for cross currency swaps will be exchanged at amounts calculated on the basis of the notional amounts and the terms of the derivatives, which are related to interest rates, exchange rates and/or certain indices.

	Notional amounts 2003	Market value 2003	Book value 2003	Notional amounts 2002	Market value 2002	Book value 2002
<b>INTEREST RATE CONTRACTS</b>						
Interest rate swaps	31,274	(115)	146	35,380	(762)	62
Swaptions	40	0	0	3	0	0
Caps/floors	312	14	3	587	24	6
Forward rate agreements	136	14	0	104	2	0
<b>OTHER DERIVATIVE CONTRACTS</b>						
Cross currency swaps	5,730	622	596	6,937	249	203
Forward foreign exchange contracts	3,428	78	79	1,329	57	57
Equity swaps	2,004	(346)	36	599	(341)	37
Over-the-counter options	77	41	39	81	71	71
Credit derivatives	579	2	(2)	484	(7)	(4)
Exchange traded options/futures	1,380	15	(1)	3,557	72	74
Synthetic GICs	30,794	0	-	32,523	6	-

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

### COMMITMENTS AND CONTINGENCIES

	2003	2002
<b>INVESTMENTS CONTRACTED</b>		
Real estate	(5)	(100)
Mortgage loans	392	366
Bonds and registered debentures:		
Purchase	0	0
Sale	(51)	0
Private placements	16	84
Other:		
Purchase	451	552
Sale	0	0

### FUTURE LEASE PAYMENTS

Under non-cancellable operating lease contracts for office buildings, future minimum lease payments amount to:

	2003	2002
Less than one year	77	64
Between one and five years	212	218
More than five years	194	342
	<b>483</b>	<b>624</b>

A significant portion of operating leases is for agency and administration offices.

	2003	2002
<b>COLLATERAL AND GUARANTEES GIVEN TO THIRD PARTIES</b>		
Bonds and registered debentures	2,373	2,435
Ceded and securitized mortgage loans	5,091	3,792
Standby letters of credit	964	1,022
Guarantees	287	316
Other commitments	827	955
Other collateral and guarantees	559	0

The bonds and other fixed rate investments function mainly as collateral granted by AEGON subsidiaries abroad, to meet legal requirements and also include collateral guarantees given by subsidiaries under reciprocal insurance contracts. The guarantees on ceded and securitized mortgage loans cover the interest rate risk at early redemption of these loans.

Standby letters of credit amounts reflected above are the liquidity commitment notional amounts. AEGON enters into agreements to provide liquidity for high quality multi-seller asset backed commercial paper conduits and municipal variable rate demand note facilities. Management does not anticipate any future funding requirements that would have a material effect on reported financial results.

A significant portion of the guarantees represent an agreement with a fund of funds manager to pay 50% of the excess of the amount of principal protection over the value of the fund of fund assets at the maturity of the principal protection instrument. At December 31, 2003, the notional amount of the principal protection was EUR 271 million, which represents the maximum amount of potential future payments (undiscounted). AEGON earns a fee in exchange for providing the principal protection and, at December 31, 2003, the maturities of the underlying fund portfolios were for 2004: EUR 19 million; for 2005: EUR 21 million; for 2006: EUR 120 million; 2007: EUR 63 million; for 2008: EUR 41 million; and thereafter EUR 7 million. The underlying fund portfolios are restricted as to investment instruments held and are required, upon a decline in value below a formula based threshold, to replace the assets with fixed income instruments in order to minimize the principal protection liability. Accordingly, management does not anticipate any future funding requirements with respect to the principal protection that would have a material effect on reported financial results.

Guarantees further include guarantees given on account of asset management commitments. In this regard, besides the guarantees shown in the table, guarantees have been given for unlimited amounts.

Other commitments include private placement commitments, mortgage loan commitments, and limited partnership commitments.

Certain insurance and investment products have minimum guarantees for which provisions have been made in the technical provisions and are therefore not included in the above table. These guarantees are discussed in note 14.

AEGON has also guaranteed certain credit lines and commercial paper of Transamerica Finance Corporation. These guarantees are not included in the above table. Transamerica Finance Corporation had EUR 2,256 million in commercial paper outstanding at December 31, 2003.



## OFF BALANCE SHEET ASSETS

As part of its core operations, AEGON concludes transactions and has relationships with institutional and retail customers for a variety of financial services. The return for these services is a fee related to the asset value, to the investment performance or to the risk exposure of the contract.

The services include:

- management of investments for institutional investors and of mutual funds in the retail business;
- offering of synthetic GICs which guarantee to plan sponsors benefit responsiveness, whether or not in the form of annuities, in the event that qualified plan benefit requests exceed plan cash flows. The plan sponsor agrees to reimburse for such benefit payments with interest.

For all services the related assets are owned by the customers and therefore they do not appear on the balance sheet of AEGON. Total assets involved in these operations amount to EUR 63 billion (USD 79 billion), (2002: EUR 52 billion, USD 55 billion).

AEGON Levensverzekering N.V. completed two privately placed securitization programs in 2002 whereby the economic ownership of EUR 1.7 billion of aggregate mortgage receivables was conveyed to third parties. The transfer of the ownership title will take place upon notification of the borrowers by either AEGON or the third parties. The third parties have the right to notify the borrowers upon the occurrence of certain pre-defined 'notification events'. A first preferred 'silent' right of pledge on the mortgage receivables was given to the third parties. At the same time AEGON entered into a fixed-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (scheduled yield from the mortgage receivables). Under both programs AEGON received the right to repurchase all of the mortgage receivables at a price equal to the then current portfolio market value of the receivables provided that AEGON simultaneously terminates the swap upon payment of the market value of the swap. For one program that right exists for the remainder of the term. The other program only allowed AEGON to repurchase the receivables between March 2003 and September 2003 and no longer permits AEGON this right.

AEGON Levensverzekering N.V. completed two publicly placed securitization programs in 2003 whereby the economic ownership of EUR 2.3 billion of aggregate mortgage receivables was conveyed to two special purpose companies. Both companies funded this purchase with the issue of mortgage backed securities. The transfer of the ownership title will take place upon notification of the borrowers by either AEGON or the special purpose companies. The special purpose companies have the right to notify the borrowers upon the occurrence of certain pre-defined 'notification events'. A first preferred 'silent' right of pledge on the mortgage receivables was given to the special purpose companies. At the same time AEGON entered into a fixed-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (scheduled yield from the mortgage receivables). For both programs, after a period of seven years, the interest of the notes, issued by the special purpose companies will step-up, together with a similar step-up in the fixed-floating swap agreement. At this time, the special purpose companies have the right to call the notes.

In 2003, one of the privately placed securitizations from 2002 was called by AEGON Levensverzekering N.V. and bought back at market value. AEGON Levensverzekering N.V. now has a total of three publicly placed and two privately placed securitization programs outstanding with a total size of EUR 5 billion.

## LITIGATION

Banque Internationale à Luxembourg S.A. and Dexia Bank Belgium S.A. (Dexia) initiated legal proceedings against AEGON in connection with its acquisition in 2000 of Labouchere, at that time a subsidiary company of AEGON. Dexia alleges that AEGON made certain misrepresentations and breached some of the warranties contained in the purchase agreement. The alleged misrepresentations and breaches of warranties relate to the securities leasing products sold by Labouchere. Dexia's claims include a claim for dissolution of the agreement and damages and, if honoured by the competent courts, may result in substantial damage to AEGON. AEGON has taken the view that the sale of Labouchere to Dexia constitutes a transaction between two large financial institutions that was duly effected and that Dexia's allegations are without merit. In view thereof, and given that the amount of damages due in case any of the claims of Dexia would succeed cannot be determined, no provision has been made for these claims in the annual accounts for 2003.

In January and February 2003, AEGON and certain current and former members of the Executive Board were named in a series of similar class action complaints filed in US federal court alleging various violations of US securities laws involving the issuance of false and misleading statements during the period between August 9, 2001, and July 22, 2002, when AEGON issued an update to its earnings guidance for 2002. AEGON believes these allegations are without merit and intends to defend vigorously against these actions, which have been consolidated. AEGON does not believe that these claims, either individually or in the aggregate, will result in a material adverse effect on its financial position or results of operations.

AEGON and some of its subsidiaries and affiliates are involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. The outcome of litigation is, at times, unpredictable. It is management's opinion, after consultation with legal counsel, that damages arising from such litigation will not have a material adverse effect on either the financial position or the results of operations.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### DETERMINATION OF RESULTS

The principles for the determination of results are described in the notes to the balance sheets. Additionally, certain principles for specific income statement items are described in this section.

### GROSS PREMIUMS

Gross premiums, including recurring and single premiums, from all types of life insurance, both general account and with investments for account of policyholders, incoming life reinsurance and non-life insurance are recognized as revenues when they become receivable. Premium to reinsurers have not been deducted. Not reflected as premium revenues are deposits from certain products that are sold in the United States and Canada such as deferred annuities, immediate annuities without life contingency and GICs and funding agreements. For these products the surrender charges and charges assessed have been included in gross premium life insurance.

### INVESTMENT INCOME AND INCOME FROM BANKING ACTIVITIES

Investment income is recognized as revenue on an accrued basis for all interest bearing assets. Investment income includes changes in the amortized cost basis of investments and amortization of deferred gains and losses on fixed rate investments. It also includes net earnings from group companies and participations (excluding Transamerica Finance Corporation), actual dividends received and rental income due. Also the indirect income on shares and real estate is recognized as investment income.

Income from banking activities includes investment income and other income from banking operations.

Fees and commissions from asset management services and mutual funds and from sales activities are recognized as revenue over the period in which the services are performed or the sales have been closed.

In the income statement the structural total return on investments in shares and real estate is recognized. This total return includes the direct income (rents and dividends) of the reporting period and an amount of indirect income.

The total return is calculated by determining the average of the total return yield over the last 30 years and multiplying this average yield by the average value of these investments over the last seven years, adjusted for investment purchases and sales.

The indirect income from these investments is then calculated as the difference between the total return and the direct income.

### REINSURANCE

AEGON is involved in both ceded and assumed reinsurance. This includes separate life reinsurance operations as well as within the life and non-life operations ceded and assumed reinsurance agreements to spread risk and to limit exposure on large risks. Premiums for reinsurance assumed are included in premium revenues, premiums for reinsurance ceded are shown separately as a charge on the face of the income statement.

The effects of reinsurance on premiums are:

	Life	Non-life	2003 Total	Life	Non-life	2002 Total	Life	Non-life	2001 Total
Direct premiums	14,956	3,061	18,017	16,581	3,320	19,901	16,730	3,069	19,799
Incoming reinsurance premiums	1,253	198	1,451	1,160	295	1,455	1,551	228	1,779
<b>TOTAL GROSS PREMIUMS</b>	<b>16,209</b>	<b>3,259</b>	<b>19,468</b>	<b>17,741</b>	<b>3,615</b>	<b>21,356</b>	<b>18,281</b>	<b>3,297</b>	<b>21,578</b>
Reinsurance ceded	1,763	500	2,263	1,977	555	2,532	1,257	602	1,859
	14,446	2,759	17,205	15,764	3,060	18,824	17,024	2,695	19,719

## 20 ANALYSIS OF PREMIUMS LIFE INSURANCE

### 2003

	Life insurance			Investments for account of policyholders		
	Gross	Reinsurance	Own account	Gross	Reinsurance	Own account
<b>INCOMING REINSURANCE</b>	1,055	(207)	848	198	(14)	184
<b>INSURANCE</b>						
<b>RECURRING:</b>						
Individual						
– without profit sharing	3,303	(686)	2,617	1,974	(53)	1,921
– with profit sharing	275	(1)	274	216	(1)	215
<b>TOTAL</b>	<b>3,578</b>	<b>(687)</b>	<b>2,891</b>	<b>2,190</b>	<b>(54)</b>	<b>2,136</b>
Group						
– without profit sharing	564	(153)	411	967	(3)	964
– with profit sharing	251	(4)	247	688	(46)	642
<b>TOTAL</b>	<b>815</b>	<b>(157)</b>	<b>658</b>	<b>1,655</b>	<b>(49)</b>	<b>1,606</b>
<b>TOTAL RECURRING</b>	<b>4,393</b>	<b>(844)</b>	<b>3,549</b>	<b>3,845</b>	<b>(103)</b>	<b>3,742</b>
<b>SINGLE:</b>						
Individual						
– without profit sharing	936	0	936	2,920	(521)	2,399
– with profit sharing	241	0	241	194	(54)	140
<b>TOTAL</b>	<b>1,177</b>	<b>0</b>	<b>1,177</b>	<b>3,114</b>	<b>(575)</b>	<b>2,539</b>
Group						
– without profit sharing	197	0	197	1,253	0	1,253
– with profit sharing	399	(1)	398	578	(19)	559
<b>TOTAL</b>	<b>596</b>	<b>(1)</b>	<b>595</b>	<b>1,831</b>	<b>(19)</b>	<b>1,812</b>
<b>TOTAL SINGLE</b>	<b>1,773</b>	<b>(1)</b>	<b>1,772</b>	<b>4,945</b>	<b>(594)</b>	<b>4,351</b>
<b>TOTAL PREMIUMS</b>	<b>7,221</b>	<b>(1,052)</b>	<b>6,169</b>	<b>8,988</b>	<b>(711)</b>	<b>8,277</b>
<b>GRAND TOTAL</b>				<b>16,209</b>	<b>(1,763)</b>	<b>14,446</b>

### 2002

	Life insurance			Investments for account of policyholders		
	Gross	Reinsurance	Own account	Gross	Reinsurance	Own account
<b>INCOMING REINSURANCE</b>	1,120	(239)	881	40	(13)	27
<b>INSURANCE</b>						
<b>RECURRING:</b>						
Individual						
– without profit sharing	3,335	(662)	2,673	2,107	(28)	2,079
– with profit sharing	303	(1)	302	234	(4)	230
<b>TOTAL</b>	<b>3,638</b>	<b>(663)</b>	<b>2,975</b>	<b>2,341</b>	<b>(32)</b>	<b>2,309</b>
Group						
– without profit sharing	663	(72)	591	995	(3)	992
– with profit sharing	268	(2)	266	655	(16)	639
<b>TOTAL</b>	<b>931</b>	<b>(74)</b>	<b>857</b>	<b>1,650</b>	<b>(19)</b>	<b>1,631</b>
<b>TOTAL RECURRING</b>	<b>4,569</b>	<b>(737)</b>	<b>3,832</b>	<b>3,991</b>	<b>(51)</b>	<b>3,940</b>

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### 20 ANALYSIS OF PREMIUMS LIFE INSURANCE (CONTINUED)

2002

	Life insurance			Investments for account of policyholders		
	Gross	Reinsurance	Own account	Gross	Reinsurance	Own account
<b>SINGLE:</b>						
Individual						
– without profit sharing	1,047	0	1,047	3,080	(867)	2,213
– with profit sharing	185	–	185	670	(60)	610
<b>TOTAL</b>	<b>1,232</b>	<b>0</b>	<b>1,232</b>	<b>3,750</b>	<b>(927)</b>	<b>2,823</b>
Group						
– without profit sharing	189	–	189	1,454	(3)	1,451
– with profit sharing	368	(1)	367	1,028	(6)	1,022
<b>TOTAL</b>	<b>557</b>	<b>(1)</b>	<b>556</b>	<b>2,482</b>	<b>(9)</b>	<b>2,473</b>
<b>TOTAL SINGLE</b>	<b>1,789</b>	<b>(1)</b>	<b>1,788</b>	<b>6,232</b>	<b>(936)</b>	<b>5,296</b>
<b>TOTAL PREMIUMS</b>	<b>7,478</b>	<b>(977)</b>	<b>6,501</b>	<b>10,263</b>	<b>(1,000)</b>	<b>9,263</b>
<b>GRAND TOTAL</b>				<b>17,741</b>	<b>(1,977)</b>	<b>15,764</b>

2001

	Life insurance			Investments for account of policyholders		
	Gross	Reinsurance	Own account	Gross	Reinsurance	Own account
<b>INCOMING REINSURANCE</b>	<b>1,357</b>	<b>(258)</b>	<b>1,099</b>	<b>194</b>	<b>(5)</b>	<b>189</b>
<b>INSURANCE</b>						
<b>RECURRING:</b>						
Individual						
– without profit sharing	2,933	(536)	2,397	2,287	(33)	2,254
– with profit sharing	304	(2)	302	250	(1)	249
<b>TOTAL</b>	<b>3,237</b>	<b>(538)</b>	<b>2,699</b>	<b>2,537</b>	<b>(34)</b>	<b>2,503</b>
Group						
– without profit sharing	659	(127)	532	885	(8)	877
– with profit sharing	280	(4)	276	604	(9)	595
<b>TOTAL</b>	<b>939</b>	<b>(131)</b>	<b>808</b>	<b>1,489</b>	<b>(17)</b>	<b>1,472</b>
<b>TOTAL RECURRING</b>	<b>4,176</b>	<b>(669)</b>	<b>3,507</b>	<b>4,026</b>	<b>(51)</b>	<b>3,975</b>
<b>SINGLE:</b>						
Individual						
– without profit sharing	1,277	(108)	1,169	3,560	(46)	3,514
– with profit sharing	158	–	158	956	(67)	889
<b>TOTAL</b>	<b>1,435</b>	<b>(108)</b>	<b>1,327</b>	<b>4,516</b>	<b>(113)</b>	<b>4,403</b>
Group						
– without profit sharing	133	–	133	961	–	961
– with profit sharing	597	(3)	594	886	(50)	836
<b>TOTAL</b>	<b>730</b>	<b>(3)</b>	<b>727</b>	<b>1,847</b>	<b>(50)</b>	<b>1,797</b>
<b>TOTAL SINGLE</b>	<b>2,165</b>	<b>(111)</b>	<b>2,054</b>	<b>6,363</b>	<b>(163)</b>	<b>6,200</b>
<b>TOTAL PREMIUMS</b>	<b>7,698</b>	<b>(1,038)</b>	<b>6,660</b>	<b>10,583</b>	<b>(219)</b>	<b>10,364</b>
<b>GRAND TOTAL</b>				<b>18,281</b>	<b>(1,257)</b>	<b>17,024</b>

## 21 ANALYSIS OF TECHNICAL RESULTS NON-LIFE INSURANCE

	Accident & health	Legal liability motor	Other motor	Marine, transport and aviation	Fire	General liability	Other branches	Total
<b>2003</b>								
Gross premiums	2,463	188	162	42	323	52	29	3,259
Gross premiums earned	2,250	186	159	42	318	52	29	3,036
Gross claims incurred	(1,304)	(157)	(106)	(27)	(181)	(41)	(15)	(1,831)
Gross operating expenses	(1,045)	(48)	(42)	(11)	(115)	(21)	(8)	(1,290)
Balance of reinsurance ceded	(52)	(1)	(1)	(2)	(9)	0	0	(65)
	(151)	(20)	10	2	13	(10)	6	(150)
Investment income	226	21	14	2	17	8	1	289
Fees and commissions	241	0	0	0	0	0	0	241
Investment charges	(4)	(1)	0	0	0	2	0	(3)
Balance of other items	(29)	0	(1)	(2)	0	(1)	0	(33)
Investment income allocated to the non-technical account	(12)	(4)	(1)	(1)	(2)	(1)	(2)	(23)
<b>RESULT TECHNICAL ACCOUNT NON-LIFE</b>	<b>271</b>	<b>(4)</b>	<b>22</b>	<b>1</b>	<b>28</b>	<b>(2)</b>	<b>5</b>	<b>321</b>
<b>2002</b>								
Gross premiums	2,848	186	150	41	305	52	33	3,615
Gross premiums earned	2,414	184	151	41	300	53	33	3,176
Gross claims incurred	(1,571)	(151)	(112)	(29)	(177)	(30)	(11)	(2,081)
Gross operating expenses	(1,208)	(48)	(39)	(10)	(108)	(21)	(9)	(1,443)
Balance of reinsurance ceded	136	(3)	(1)	(1)	(23)	(3)	(2)	103
	(229)	(18)	(1)	1	(8)	(1)	11	(245)
Investment income	259	24	15	2	20	8	1	329
Fees and commissions	302	0	0	0	0	0	0	302
Investment charges	(4)	0	1	0	0	1	0	(2)
Balance of other items	(50)	1	0	0	2	4	(1)	(44)
Investment income allocated to the non-technical account	(14)	(4)	(2)	(1)	(2)	(2)	(1)	(26)
<b>RESULT TECHNICAL ACCOUNT NON-LIFE</b>	<b>264</b>	<b>3</b>	<b>13</b>	<b>2</b>	<b>12</b>	<b>10</b>	<b>10</b>	<b>314</b>
<b>2001</b>								
Gross premiums	2,558	179	158	36	287	55	24	3,297
Gross premiums earned	2,019	178	158	36	282	55	23	2,751
Gross claims incurred	(1,200)	(149)	(117)	(25)	(179)	(33)	(4)	(1,707)
Gross operating expenses	(988)	(45)	(41)	(9)	(98)	(22)	(7)	(1,210)
Balance of reinsurance ceded	(4)	1	2	(1)	(11)	0	(4)	(17)
	(173)	(15)	2	1	(6)	0	8	(183)
Investment income	277	27	19	3	22	10	1	359
Fees and commissions	142	0	0	0	0	0	0	142
Investment charges	(6)	0	0	0	(1)	1	0	(6)
Balance of other items	(31)	(1)	(2)	0	(2)	0	0	(36)
Investment income allocated to the non-technical account	(15)	(4)	(1)	(2)	(5)	0	0	(27)
<b>RESULT TECHNICAL ACCOUNT NON-LIFE</b>	<b>194</b>	<b>7</b>	<b>18</b>	<b>2</b>	<b>8</b>	<b>11</b>	<b>9</b>	<b>249</b>

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### COMBINED RATIOS (in %)

	Accident & health	Legal liability motor	Other motor	Marine, transport and aviation	Fire	General liability	Other branches	Total
<b>2003</b>								
Americas	107	–	–	–	–	–	–	107
The Netherlands	87	128	91	96	97	118	106	100
Other Countries	95	93	67	120	93	120	57	93
<b>TOTAL</b>	<b>105</b>	<b>111</b>	<b>94</b>	<b>96</b>	<b>95</b>	<b>119</b>	<b>80</b>	<b>103</b>
<b>2002</b>								
Americas	106	–	–	–	–	–	–	106
The Netherlands	95	117	100	98	109	101	67	103
Other Countries	96	102	104	191	94	120	55	97
<b>TOTAL</b>	<b>105</b>	<b>110</b>	<b>102</b>	<b>99</b>	<b>102</b>	<b>105</b>	<b>61</b>	<b>105</b>
<b>2001</b>								
Americas	99	–	–	–	77	–	–	99
The Netherlands	94	114	95	99	106	92	64	100
Other Countries	94	103	105	67	98	127	–	99
<b>TOTAL</b>	<b>99</b>	<b>109</b>	<b>98</b>	<b>99</b>	<b>102</b>	<b>99</b>	<b>64</b>	<b>100</b>

The combined ratio is the sum of the ratio of net incurred claims to net premiums earned and the ratio of net commissions and expenses to premiums own account.

Although a ratio over 100% suggests a loss, the ratio does not include investment income. With the inclusion of investment income in the calculation, all of AEGON's major product lines were profitable during the periods presented.



## 22 INVESTMENT INCOME

	Life	Non-life	Non-technical	Total
<b>2003</b>				
Income from participations	60	0	13	73
<b>Group companies:</b>				
Income from other investments				
Real estate <sup>1</sup>	114	1	1	116
Shares	181	1	0	182
Bonds and other fixed rate securities	3,625	261	0	3,886
Loans guaranteed by mortgage	1,006	4	0	1,010
Other loans	1,211	6	19	1,236
Deposits with credit institutions	3	0	0	3
Other financial investments	176	11	1	188
Interest on liquid assets and other	57	4	0	61
Indirect income shares and real estate	630	1	0	631
<b>TOTAL</b>	<b>7,063</b>	<b>289</b>	<b>34</b>	<b>7,386</b>
<b>2002</b>				
Income from participations	20	0	19	39
<b>Group companies:</b>				
Income from other investments				
Real estate <sup>1</sup>	112	5	2	119
Shares	167	3	0	170
Bonds and other fixed rate securities	4,034	292	0	4,326
Loans guaranteed by mortgage	1,201	5	0	1,206
Other loans	1,528	9	25	1,562
Deposits with credit institutions	7	0	0	7
Other financial investments	190	0	1	191
Interest on liquid assets and other	13	3	0	16
Indirect income shares and real estate	746	12	0	758
<b>TOTAL</b>	<b>8,018</b>	<b>329</b>	<b>47</b>	<b>8,394</b>
<b>2001</b>				
Income from participations	18	0	60	78
<b>Group companies:</b>				
Income from other investments				
Real estate <sup>1</sup>	122	2	2	126
Shares	176	6	0	182
Bonds and other fixed rate securities	4,394	297	0	4,691
Loans guaranteed by mortgage	1,338	4	0	1,342
Other loans	1,818	11	31	1,860
Deposits with credit institutions	11	4	0	15
Other financial investments	157	1	0	158
Interest on liquid assets and other	134	9	0	143
Indirect income shares and real estate	698	25	0	723
<b>TOTAL</b>	<b>8,866</b>	<b>359</b>	<b>93</b>	<b>9,318</b>

<sup>1</sup> Of which allocated internal rent for real estate for AEGON's own use is EUR 11 million (2002: EUR 14 million and 2001: EUR 17 million), based on current market conditions.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

<b>23 FEES AND COMMISSIONS</b>	Life	Non-life	Non-technical	Total
<b>2003</b>				
Fee income from asset management	530	0	–	530
Sales commissions	438	0	–	438
Other fee and commission income	12	241	–	253
<b>TOTAL</b>	<b>980</b>	<b>241</b>	<b>–</b>	<b>1,221</b>
<b>2002</b>				
Fee income from asset management	496	1	–	497
Sales commissions	172	0	–	172
Other fee and commission income	8	301	–	309
<b>TOTAL</b>	<b>676</b>	<b>302</b>	<b>–</b>	<b>978</b>
<b>2001</b>				
Fee income from asset management	329	0	–	329
Sales commissions	139	1	–	140
Other fee and commission income	5	141	–	146
<b>TOTAL</b>	<b>473</b>	<b>142</b>	<b>–</b>	<b>615</b>
<b>24 INCOME FROM BANKING ACTIVITIES</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	
Bonds and other fixed rate securities	61	54	49	
Loans guaranteed by mortgage	51	51	36	
Other loans	40	68	83	
Other investments and liquid assets	202	243	216	
<b>TOTAL</b>	<b>354</b>	<b>416</b>	<b>384</b>	
<b>25 CHANGE IN TECHNICAL PROVISIONS</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	
Technical provisions	5,055	5,179	4,804	
Technical provisions with investments for account of policyholders	14,141	(9,279)	(5,504)	
	19,196	(4,100)	(700)	
Investment income for account of policyholders	(12,858)	11,524	9,515	
<b>CHANGE IN TECHNICAL PROVISIONS</b>	<b>6,338</b>	<b>7,424</b>	<b>8,815</b>	
<b>26 PROFIT SHARING AND REBATES</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	
Amortization of interest rate rebates	72	84	102	
Surplus interest bonuses	28	38	40	
Profit appropriated to policyholders	71	67	106	
<b>TOTAL</b>	<b>171</b>	<b>189</b>	<b>248</b>	

Granted interest rate rebates amount to EUR 38 million (2002: EUR 50 million and 2001: EUR 94 million), entirely relating to the Dutch companies.

## 27 OPERATING EXPENSES

	Life	Non-life	Non-technical	Total
<b>2003</b>				
Acquisition costs	2,215	880	–	3,095
Deferred policy acquisition costs	(1,847)	(291)	–	(2,138)
Amortization of deferred policy acquisition costs	1,455	273	–	1,728
	1,823	862	–	2,685
Administrative expenses	2,298	428	–	2,726
Commissions and profit sharing from reinsurers	(247)	(134)	–	(381)
Banking and other activities	–	–	140	140
<b>TOTAL OPERATING EXPENSES</b>	<b>3,874</b>	<b>1,156</b>	<b>140</b>	<b>5,170</b>
Investment expenses				217
Commissions and expenses				5,387
<b>2002</b>				
Acquisition costs	2,850	1,066	–	3,916
Deferred policy acquisition costs	(2,486)	(401)	–	(2,887)
Amortization of deferred policy acquisition costs	1,520	328	–	1,848
	1,884	993	–	2,877
Administrative expenses	1,917	450	–	2,367
Commissions and profit sharing from reinsurers	(253)	(138)	–	(391)
Banking and other activities	–	–	125	125
<b>TOTAL OPERATING EXPENSES</b>	<b>3,548</b>	<b>1,305</b>	<b>125</b>	<b>4,978</b>
Investment expenses				234
Commissions and expenses				5,212
<b>2001</b>				
Acquisition costs	2,590	561	–	3,151
Deferred policy acquisition costs	(2,256)	(302)	–	(2,558)
Amortization of deferred policy acquisition costs	1,203	219	–	1,422
	1,537	478	–	2,015
Administrative expenses	2,001	732	–	2,733
Commissions and profit sharing from reinsurers	(305)	(157)	–	(462)
Banking and other activities	–	–	96	96
<b>TOTAL OPERATING EXPENSES</b>	<b>3,233</b>	<b>1,053</b>	<b>96</b>	<b>4,382</b>
Investment expenses				192
Commissions and expenses				4,574
	<b>2003</b>	<b>2002</b>	<b>2001</b>	
Technical and non-technical accounts include the following:				
Salaries	1,178	1,206	1,167	
Pension premiums	90	(92)	(111)	
Other social security charges	208	205	189	
Other expenses	1,344	1,300	1,223	
Total expenses	2,820	2,619	2,468	
Commissions	3,358	4,023	3,704	
Deferred policy acquisition costs	(2,138)	(2,887)	(2,558)	
Amortization of deferred policy acquisition costs	1,728	1,848	1,422	
Commissions and profit sharing from reinsurers	(381)	(391)	(462)	
<b>COMMISSIONS AND EXPENSES</b>	<b>5,387</b>	<b>5,212</b>	<b>4,574</b>	

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

Expenses include allocated internal rent related to real estate for AEGON's own use of EUR 11 million (2002: EUR 14 million and 2001: EUR 17 million), based on current market conditions.

Claims processing costs are included in benefits and surrenders respectively in claims for own account; investment expenses are included in investment charges.

The liabilities related to the various stock appreciation right plans are valued at market value and included in other payables. The value was estimated using the binomial option pricing model, taking into account the period of time until the vesting date, the remaining period of time until maturity and the expected decreasing number of entitled employees. At the balance sheet date, market value of the 2003 and 2002 plans amounted to EUR 20 million (2002: nil). The change in market value is recognized in other expenses and amounted to EUR 20 million for 2003 (2002 and 2001: nil).

AEGON has non-contributory defined benefit plans and defined contribution plans covering substantially all AEGON employees. In a number of countries, including the Netherlands and the United Kingdom, retirement benefits are insured with our life insurance companies based on the appropriate actuarial formulas and assumptions. In the remaining countries, including the United States, the provisions for pension obligations are vested in separate legal entities, not forming part of AEGON.

In the United States US GAAP (SFAS 87) is applied for the US pension plans. SFAS calculations require several assumptions, including future performance of financial markets, future composition of work force and best estimates of long-term actuarial assumptions. The pension expense in the income statement in a certain year under SFAS 87 includes the expected return on assets. The expected return on assets is calculated by applying the long-term return on a five year moving average of the market value of the plan assets. In a period of market declines, such as recently experienced, this moving average is higher than the market value of the assets at the reporting date. The difference between the expected return reflected in the income statements and the actual return on the assets in a certain year is deferred. Deferred gains or losses are amortized to the income statement applying a corridor approach. The corridor is defined as 10% of the greater of the moving average value of the plan assets or the projected benefit obligation. To the extent that the prepaid pension costs at the beginning of the year exceed the moving average asset value less the pension benefit obligation by more than the 10% corridor, the excess is amortized over the employees' average future years of service (approximately seven years). The amount in note 10 (page 94) for Prepaid pension costs on employee pension plans relates entirely to AEGON in the United States. The amount is a combination of unrecognized net losses, unrecognized prior service costs and the positive difference between the market value of the pension plan assets at the reporting date and the projected benefit obligation.

In the Netherlands employees participate in a defined benefit scheme based on average salary and for the amount exceeding a certain level employees may opt for a defined contribution scheme. Indexation of vested rights are fully funded yearly and immediately charged to the income statements.

In the United Kingdom, AEGON UK has a defined benefit scheme which covers the great majority of employees. With effect from April 1, 2003, this fund was closed to new entrants who are now placed in a defined contribution scheme. In addition, current employees in the defined benefit scheme will either have future benefit entitlements reduced or will have to pay 5% of salary to maintain benefits at current level. Employer contributions at the rate of 14% commenced with effect from January 1, 2003.

In the other countries pension costs are fully charged to the income statements in the years in which they are earned by the employees.

The average number of employees was 28,521 of which 5,136 agent-employees (2002: 25,903 of which 3,985 agent-employees and 2001: 25,790 of which 4,298 agent-employees). The specification per geographical area is as follows:

	2003	2002	2001
Americas	14,921	15,628	16,007
The Netherlands	6,016	2,986	3,073
United Kingdom	5,130	4,942	4,574
Other Countries	2,454	2,347	2,136
<b>TOTAL</b>	<b>28,521</b>	<b>25,903</b>	<b>25,790</b>

The average number of employees of joint ventures have been included proportionally. The total number employed at these joint ventures was 333 (2002: 49 and 2001: 931). The 2002 figures have been adjusted for self-employed agents which are no longer included. The increase in the average number of employees in the Netherlands is due to the consolidation of the Meeüs group and other distribution companies.

## REMUNERATION EXECUTIVE BOARD AND SUPERVISORY BOARD

### REMUNERATION OF ACTIVE AND RETIRED MEMBERS OF THE EXECUTIVE BOARD

Amounts in EUR thousands

	Salary	Performance related payments <sup>2</sup>	Pension	Total
<b>2003</b>				
D.J. Shepard	884 <sup>1</sup>	1,207 <sup>3</sup>	229	2,320
J.B.M. Streppel	652 <sup>4</sup>	0	221	873
J.G. van der Werf	552 <sup>4</sup>	0	187	739
A.R. Wynaendts (as of April 17, 2003)	380	0	129	509
<b>TOTAL FOR ACTIVE MEMBERS</b>	<b>2,468</b>	<b>1,207</b>	<b>766</b>	<b>4,441</b>
P. van de Geijn (up to October 31, 2003)	420	0	143	563
<b>TOTAL</b>	<b>2,888</b>	<b>1,207</b>	<b>909</b>	<b>5,004</b>
<b>2002</b>				
D.J. Shepard	1,056 <sup>1</sup>	992	287	2,335
P. van de Geijn	495	215	49	759
J.B.M. Streppel	495	215	49	759
J.G. van der Werf (as of April 18, 2002)	364	–	36	400
<b>TOTAL FOR ACTIVE MEMBERS</b>	<b>2,410</b>	<b>1,422</b>	<b>421</b>	<b>4,253</b>
K.J. Storm (up to June 30, 2002)	328	291	1,500	2,119
<b>TOTAL</b>	<b>2,738</b>	<b>1,713</b>	<b>1,921</b>	<b>6,372</b>
<b>2001</b>				
D.J. Shepard	1,117 <sup>1</sup>	1,321	313	2,751
P. van de Geijn	475	457	47	979
K.J. Storm	642	616	64	1,322
J.B.M. Streppel	475	305	47	827
<b>TOTAL FOR ACTIVE MEMBERS</b>	<b>2,709</b>	<b>2,699</b>	<b>471</b>	<b>5,879</b>
H.B. van Wijk	–	188	–	188
<b>TOTAL</b>	<b>2,709</b>	<b>2,887</b>	<b>471</b>	<b>6,067</b>

<sup>1</sup> D.J. Shepard earns a salary of USD 1 million.

<sup>2</sup> Under an annual short term incentive plan D.J. Shepard may receive USD 50,000 per percent point increase in the preceding year's earnings per share. The other members of the Executive Board may receive EUR 31,765 (over 2002) per percent point increase in the preceding year's earnings per share in excess of the rate of European inflation as indicated by the European Central Bank. All bonuses have a maximum of 150% of that year's salary. No bonuses were paid in 2003 relating to 2002.

<sup>3</sup> In addition to the short term incentive plan, D.J. Shepard earned a performance allowance for the period until April 18, 2002 related to the earnings increase of AEGON USA in 2002 which was paid in 2003. As of April 18, 2002, Mr. Shepard is entitled to an annual incentive equal to 0.1% of the net income of AEGON N.V., for the first time for the financial year 2002, paid in 2003 as well.

<sup>4</sup> Base salary including increase from Dutch collective labour agreement and a tax deferred employee savings scheme.

For a detailed description of the remuneration policy regarding the members of the Executive Board refer to page 71 and following.

In line with current market practice the members of the Executive Board are under circumstances entitled to certain severance payments. These payments are either based on age and years of employment with AEGON or fixed to an amount not exceeding three years' remuneration upon termination of the employment agreement under certain specific circumstances, such as a change of control, a fundamental change in policy or early retirement upon reaching the age of 60.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

<b>REMUNERATION OF ACTIVE AND RETIRED MEMBERS OF THE SUPERVISORY BOARD</b>				
In EUR	2003	2002	2001	
M. Tabaksblat	56,722	56,722	56,722	
H. de Ruiter	45,378	45,378	45,378	
D.G. Eustace	48,214	45,378	45,378	
O.J. Olcay	34,034	34,034	34,034	
K.M.H. Peijs	–	34,034	34,034	
G.A. Posthumus	–	45,378	39,705	
T. Rembe	48,214	36,870	34,034	
W.F.C. Stevens	39,706	34,034	34,034	
K.J. Storm (as of July 1, 2002)	34,034	17,017	–	
F.J. de Wit	34,034	34,034	34,034	
L.M. van Wijk (as of April 17, 2003)	21,205	–	–	
<b>TOTAL FOR ACTIVE MEMBERS</b>	<b>361,541</b>	<b>382,879</b>	<b>357,353</b>	
Sir Michael Jenkins	–	–	34,034	
J.F.M. Peters (up to May 3, 2001)	–	–	15,808	
K.M.H. Peijs (up to May 27, 2003)	13,875	–	–	
G.A. Posthumus (up to April 17, 2003)	15,882	–	–	
<b>TOTAL</b>	<b>391,298</b>	<b>382,879</b>	<b>407,195</b>	

The remuneration of members of the Supervisory Board is related to the functions of the individual member within the Supervisory Board. The chairman and the vice-chairman, as well as the members of the Audit Committee, are entitled to certain additional payments as reflected in the table above.

### STOCK OPTIONS INCLUDING STOCK APPRECIATION RIGHTS AND INTERESTS IN AEGON HELD BY ACTIVE MEMBERS OF THE EXECUTIVE BOARD

	Stock options Balance at January 1	Exercise price EUR	Granted	Exercise price EUR	Lapsed	Date	Market price EUR	Stock options Balance at December 31	Exercise price EUR	Shares held in AEGON at December 31
D.J. Shepard	200,000	29.02			200,000	–	–	–	–	
	200,000	46.95			0	–	–	200,000	46.95	
	200,000	34.50			0	–	–	200,000	34.50	
	100,000	34.84			0	–	–	100,000	34.84	
	50,000 <sup>1</sup>	26.70			0	–	–	50,000 <sup>1</sup>	26.70	287,216
J.B.M. Streppel	50,000	29.02			50,000	–	–	–	–	
	40,000 <sup>1</sup>	46.95			0	–	–	40,000 <sup>1</sup>	46.95	
	40,000	34.50			0	–	–	40,000	34.50	
	100,000	34.84			0	–	–	100,000	34.84	
	50,000 <sup>1</sup>	26.70			0	–	–	50,000 <sup>1</sup>	26.70	–
J.G. van der Werf	60,000	29.02			60,000	–	–	–	–	
	48,000	46.95			0	–	–	48,000	46.95	
	48,000	34.50			0	–	–	48,000	34.50	
	50,000	34.84			0	–	–	50,000	34.84	
	50,000 <sup>1</sup>	26.70			0	–	–	50,000 <sup>1</sup>	26.70	121,599
A.R. Wynaendts	36,000 <sup>1</sup>	46.95			0	–	–	36,000 <sup>1</sup>	46.95	
	20,000 <sup>1</sup>	34.50			0	–	–	20,000 <sup>1</sup>	34.50	
	16,000	34.50			0	–	–	16,000	34.50	
	20,000 <sup>1</sup>	34.84			0	–	–	20,000 <sup>1</sup>	34.84	
	15,000	34.84			0	–	–	15,000	34.84	
	40,000 <sup>1</sup>	26.70			0	–	–	40,000 <sup>1</sup>	26.70	
			50,000 <sup>1,2</sup>	6.30	0	–	–	50,000 <sup>1</sup>	6.30	–

<sup>1</sup> Stock appreciation rights. For a description refer to page 138.

<sup>2</sup> The stock appreciation rights were granted before becoming a member of the Executive Board.

The criteria for the number of stock appreciation rights or stock option rights to be offered to the members of the Executive Board are as follows:

1. Comparison of the AEGON share price with the share prices of a peer group of nine financial companies (ABN Amro, AIG, Allianz, AXA, Fortis, Generali, ING, Prudential PLC, and Zurich). The comparison is based on the share price performance over the preceding three years.
2. If the AEGON share price achieves a top three position, each Executive Board member will receive 200,000 rights, if it ranks in the bottom group (three companies) 50,000 rights will be granted and if it finishes in the middle group (of four companies) each Executive Board member will earn 100,000 rights.
3. If there is no increase in earnings per share, no options will be granted.

At the balance sheet date, J.B.M. Streppel had a 5% mortgage loan of EUR 680,700, and A.R. Wynaendts had two mortgage loans, totaling EUR 635,292 with interest rates of 3.9% and 4.1% respectively.

In accordance with the terms of these contracts no principal repayments were received on these loans in 2003. The terms of these loans have not been amended.

#### STOCK OPTIONS INCLUDING STOCK APPRECIATION RIGHTS OF ACTIVE MEMBERS OF THE SUPERVISORY BOARD

	Stock options Balance at January 1	Exercise price EUR	Lapsed	Date	Market price EUR	Stock options Balance at December 31	Exercise price EUR
K.J. Storm	200,000	29.02	200,000	–	–	–	–
	200,000	46.95	0	–	–	200,000	46.95
	200,000	34.50	0	–	–	200,000	34.50
	100,000	34.84	0	–	–	100,000	34.84

The options have been granted by reason of membership in the Executive Board in the related years.

#### COMMON SHARES HELD BY THE SUPERVISORY BOARD MEMBERS

	Shares held in AEGON at December 31, 2003
M. Tabaksblat	7,644
T. Rembe	6,658
K.J. Storm	276,479
F.J. de Wit	7,624
<b>TOTAL</b>	<b>298,405</b>

#### 28 INVESTMENT CHARGES

	Life	Non-life	Non- technical	Total
<b>2003</b>				
Investment expenses and interest charges	217	3	642	862
<b>2002</b>				
Investment expenses and interest charges	271	2	691	964
<b>2001</b>				
Investment expenses and interest charges	242	6	806	1,054



## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### 29 MISCELLANEOUS INCOME AND EXPENDITURE

	Life	Non-life	Non-technical	Total
<b>2003</b>				
Addition to provision for doubtful debts	484	0	5	489
Currency exchange rate differences	0	1	(12)	(11)
Other income and expenditure	42	32	22	96
<b>TOTAL</b>	<b>526</b>	<b>33</b>	<b>15</b>	<b>574</b>
<b>2002</b>				
Addition to provision for doubtful debts	826	(1)	55	880
Currency exchange rate differences	(1)	0	(13)	(14)
Other income and expenditure	37	45	(90)	(8)
<b>TOTAL</b>	<b>862</b>	<b>44</b>	<b>(48)</b>	<b>858</b>
<b>2001</b>				
Addition to provision for doubtful debts	766	32	6	804
Currency exchange rate differences	1	0	(18)	(17)
Book gain on sale of partnership interests in Mexico	(343)	–	–	(343)
Other income and expenditure	(9)	4	(61)	(66)
<b>TOTAL</b>	<b>415</b>	<b>36</b>	<b>(73)</b>	<b>378</b>

### 30 INVESTMENT INCOME ALLOCATED TO THE NON-TECHNICAL ACCOUNT

Income on investments held against shareholders' equity does not form a part of the technical results. The amounts transferred to the non-technical account include the direct yield on allocated investments or are based on the average direct yield of the investment portfolio.

### 31 CORPORATION TAX

The tax burden for AEGON as a group is made up of the direct and future taxes payable on profits of the units operating in the various countries. The effective tax rate for 2003 was 27% compared to 19% for 2002. The low effective tax rate in 2002 was largely due to a reduction of the deferred tax liability, favorable adjustments resulting from the filing of the 2001 corporate tax returns in the United States, lower taxable income relative to tax preferred investments and tax-exempt income in the Netherlands and the United States, and the use of tax losses in the United Kingdom.

	2003	2002	2001
Breakdown:			
Taxes currently due	646	583	709
Taxes deferred due to temporary differences	(74)	(230)	209
<b>TOTAL</b>	<b>572</b>	<b>353</b>	<b>918</b>
The following is a reconciliation of the nominal tax charge to the actual tax expense:			
Statutory tax rate	731	621	1,109
Increases (decreases) in taxes resulting from:			
– dividend income exclusions and credits	(157)	(181)	(286)
– depreciation of equipment and real estate	(2)	(2)	(3)
– valuation of technical provisions	0	0	2
– other, net	0	(85)	96
<b>ACTUAL TAX EXPENSE</b>	<b>572</b>	<b>353</b>	<b>918</b>

Amounts paid in cash in 2003 for income taxes totaled EUR 365 million (2002: EUR 311 million and 2001: EUR 930 million).

### 32 NET INCOME UNCONSOLIDATED GROUP COMPANIES

#### TRANSAMERICA NON-INSURANCE BUSINESSES

Transamerica Finance Corporation (TFC) conducts business in commercial lending, intermodal leasing and real estate information services operations. Due to their dissimilarity in operations in relation to the operations of AEGON, these group companies have not been consolidated.

The commercial lending operation makes commercial loans through four businesses: distribution finance, business capital, equipment financial services and specialty finance. It has offices in the United States, Mexico, Canada, Europe and India. The intermodal leasing operation provides service, rentals and term operating leases through a worldwide network of offices, third party depots and other facilities. The intermodal leasing operation offers a wide variety of equipment used in international and domestic commerce around the world. Its fleet consists of over 637,000 marine containers (consisting of units that are either owned or managed for and leased from others) and over 18,000 European trailers. Real estate information services provides property tax payment and reporting, flood certification and other real estate information services to its customers.

On August 5, 2003 AEGON announced an agreement to sell most of the commercial lending business of 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. Therefore the 2003 annual accounts fully include on a non-consolidated basis the assets, liabilities and results for these businesses.

On October 2, 2003, AEGON completed the sale of TFC's real estate tax services and flood hazard certification businesses to The First American Corporation for a total cash sale price of EUR 354 million (USD 400 million). As part of the transaction, TFC's real estate tax service subsidiary has distributed assets valued at EUR 217 million (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 EUR 307 million (USD 347 million), which was added directly to AEGON shareholders' equity against the invested capital charged earlier to equity as goodwill. In 2003, these units had contributed EUR 75 million, USD 85 million (2002: EUR 42 million, USD 40 million) to AEGON's net income before funding costs on the related raised debt.

The remaining businesses of TFC will primarily consist of maritime container and European trailer leasing, which will be consolidated as of the first quarter 2004.

Following are the consolidated balance sheets, consolidated income statements and notes thereto of Transamerica Finance Corporation, established in Delaware and operating from Chicago, Illinois, USA. In addition, the statements include allocated expenses and financing costs from associated non-insurance companies. The statements have been prepared in accordance with Dutch accounting principles.

#### CONSOLIDATED BALANCE SHEETS AT DECEMBER 31 OF TRANSAMERICA FINANCE CORPORATION

	2003	2002
Cash	57	62
Finance receivables	4,906	5,728
Equipment	85	97
Other assets	1,652	2,308
<b>TOTAL ASSETS</b>	<b>6,700</b>	<b>8,195</b>
Long-term borrowings	2,472	3,551
Short-term borrowings	2,256	2,220
Other liabilities	781	872
Accruals and deferred income	0	285
Provisions for deferred taxation	507	394
Shareholders' equity	684	873
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>6,700</b>	<b>8,195</b>

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### CONSOLIDATED INCOME STATEMENTS OF TRANSAMERICA FINANCE CORPORATION

	2003	2002	2001
Finance charges	524	672	919
Leasing revenues	369	444	489
Real estate information	217	254	283
Other revenues	135	141	261
<b>TOTAL REVENUES</b>	<b>1,245</b>	<b>1,511</b>	<b>1,952</b>
Interest and debt expense	178	252	470
Salaries and other employee expenses	286	332	365
Depreciation on equipment held for lease	177	222	246
Addition to the provision for doubtful accounts	(1)	169	155
Miscellaneous income and expenditure	272	414	590
<b>TOTAL EXPENSES</b>	<b>912</b>	<b>1,389</b>	<b>1,826</b>
Income before tax	333	122	126
Corporation tax	(91)	(34)	(1)
<b>NET INCOME FROM OPERATIONS</b>	<b>242</b>	<b>88</b>	<b>125</b>

The low corporation tax in 2001 was caused by the reversal of state tax liabilities that were no longer needed.

Income reported by AEGON:			
Net income reported	242	88	125
Funding costs on the related raised debt, net of tax	(24)	(37)	(53)
<b>NET INCOME REPORTED BY AEGON</b>	<b>218</b>	<b>51</b>	<b>72</b>

### CASH FLOW FOR TRANSAMERICA FINANCE CORPORATION:

Net cash provided by operating activities	700	547	465
Net cash provided by investing activities	135	914	2,285
Net cash used in financing activities	(840)	(1,463)	(2,737)

### NOTES TO THE CONSOLIDATED BALANCE SHEETS OF TRANSAMERICA FINANCE CORPORATION

Where not otherwise stated, balance sheet items are carried at face value. If necessary a provision for bad and doubtful debts has been deducted.

#### CASH

All cash is at free disposal.

	2003	2002
<b>FINANCE RECEIVABLES</b>		
The contractual maturity is:		
Less than three months	1,350	1,230
Between three months and one year	1,388	1,453
Between one and five years	1,660	2,416
Over five years	508	629
<b>TOTAL</b>	<b>4,906</b>	<b>5,728</b>

This item includes receivables from lending and leasing activities after deduction of unearned finance charges.

	2003	2002
Net finance receivables	5,018	5,901
Less allowances for losses	(112)	(173)
<b>TOTAL</b>	<b>4,906</b>	<b>5,728</b>

Transamerica Finance Corporation has entered into securitization arrangements under which it sells designated pools of net finance receivables to qualified special purpose entities (QSPEs). Under the terms of the securitization arrangements, TFC retains the servicing of the securitized assets and generally receives a servicing fee on the outstanding balance of the securitized assets along with rights to future residual cash flows.

Transamerica Finance Corporation maintains a provision for losses on net finance receivables at an amount that it believes is sufficient to provide adequate protection against losses in its loan portfolios. The allowance is provided through charges against current income and is adjusted for specific accounts as well as losses inherent in the portfolio.

Transamerica Finance Corporation determines its allowance for losses by taking into account expected losses in each business, the ratio of the provision for losses to net finance receivables outstanding and the ratio of net credit losses to average net finance receivables outstanding. A specific provision is established for impaired receivables when it is deemed probable that not all future principal and interest payments will be collected in accordance with the applicable contractual terms. This provision is reviewed and updated quarterly.

	2003	2002
<b>EQUIPMENT</b>		
Balance at January 1	97	129
Investments	5	29
Depreciation	(5)	(10)
Disposals and other changes	4	(12)
Currency exchange rate differences	(16)	(39)
<b>BALANCE AT DECEMBER 31</b>	<b>85</b>	<b>97</b>
Accumulated depreciation	51	87
Total cost of equipment	136	184

Equipment is shown at cost less depreciation over the estimated useful life.

	2003	2002
<b>OTHER ASSETS</b>		
Equipment held for lease	1,220	1,551
Assets held for sale	22	113
Other	410	644
<b>TOTAL</b>	<b>1,652</b>	<b>2,308</b>

Equipment held for lease is shown at cost less depreciation over the estimated useful life. Assets held for sale consists primarily of retail finance receivables, certain off-lease equipment and repossessed assets.

	2003	2002
<b>LONG-TERM BORROWINGS</b>		
The contractual maturity is:		
Less than three months	371	218
Between three months and one year	437	318
Between one and five years	1,494	2,478
Over five years	170	537
<b>TOTAL</b>	<b>2,472</b>	<b>3,551</b>

Long-term borrowings include intercompany loans for an amount of EUR 1,989 million (2002: EUR 2,342 million).

The weighted average interest rate on long-term borrowings at December 31, 2003, and 2002 was 4.2% and 6.32% respectively.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

	2003	2002
<b>SHORT-TERM BORROWINGS</b>		
Commercial paper	2,256	2,144
Banks	0	76
<b>TOTAL</b>	<b>2,256</b>	<b>2,220</b>

The weighted average interest rates on short-term borrowings at December 31, 2003, and 2002 were 1.72% and 1.94% respectively.

	2003	2002
<b>OTHER LIABILITIES</b>		
Creditors	413	489
Taxes	92	(3)
Other liabilities	276	386
<b>TOTAL</b>	<b>781</b>	<b>872</b>

	2003	2002
<b>SHAREHOLDERS' EQUITY</b>		
Capital	11	14
Reserves	673	859
<b>TOTAL</b>	<b>684</b>	<b>873</b>

	2003	2002
<b>RESERVES</b>		
Balance at January 1	859	1,256
Net income	218	51
Capital redemptions / contributions	10	(161)
Dividends paid	(542)	(59)
Currency exchange rate differences	(133)	(163)
Other changes	261	(65)
<b>BALANCE AT DECEMBER 31</b>	<b>673</b>	<b>859</b>

Other changes in 2003 include the book gain from the sale of the real estate tax services and flood hazard certification businesses.

### COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, Transamerica Finance Corporation grants various credit related commitments to meet the financing needs of its customers. Such commitments include purchase obligations and partnership investment commitments, revolving lines of credit and financial guarantees, including guarantees of letters of credit and standby letters of credit. Commitments under such arrangements totaled EUR 1,547 million at December 31, 2003. Transamerica Finance Corporation also is party to various other financial guarantees that could require payment of certain obligations in the event of demand by third parties. These guarantees amounted to EUR 20 million at December 31, 2003.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS OF TRANSAMERICA FINANCE CORPORATION

### REVENUE RECOGNITION

Finance charges are generally recognized on an effective yield method. Charges collected in advance on distribution finance receivables are taken into income on a straight-line basis over the periods to which the charges relate, which generally average ninety days. Related origination and other non-refundable fees and direct origination costs are deferred and amortized as adjustments of finance charges over the contractual life of the transactions. Accrual of finance charges is suspended on accounts that contractually become past due in excess of ninety days or at the discretion of management.

Leasing revenues are earned on service, rental and term operating leases. Rental revenues are recognized in the period billed. Revenues from service contract minimum and term leases are recognized on a straight-line basis over the lease term. Initial direct costs are amortized on a straight-line basis over the lease term.

Real estate service revenues are primarily fees for life of loan property tax payment and reporting services and flood certifications. Life of loan service fees are deferred and recognized in income over the expected service period. Transamerica Finance Corporation periodically reviews its revenue recognition method to determine the expected life of a contract and/or whether prepayment speeds used have changed. Accordingly, TFC may adjust the deferral period to reflect current trends.

	2003	2002	2001
<b>BREAKDOWN OF NET INCOME FROM OPERATIONS BY SEGMENT</b>			
Commercial lending	217	94	87
Leasing	7	(9)	(12)
Real estate information	75	42	42
Other	(57)	(39)	8
<b>NET INCOME FROM OPERATIONS</b>	<b>242</b>	<b>88</b>	<b>125</b>

	2003	2002	2001
<b>SALARIES AND OTHER EMPLOYEE COSTS</b>			
Salaries	246	261	319
Pension expenses	(6)	(4)	(6)
Social security charges	11	14	15
Other employee costs	35	61	37
<b>TOTAL</b>	<b>286</b>	<b>332</b>	<b>365</b>

TFC employed 2,104 people at December 31, 2003 (2002: approximately 3,900 and 2001: approximately 4,700).

### 33 NET INCOME PER SHARE

The following table provides the information underlying the calculation of net income per share. Net income per share excludes dilution and is computed by dividing net income available to common shareholders, which is after deduction of dividends on the preferred shares, by the weighted average number of common shares (EUR 0.12 par value) outstanding. Fully diluted net income per share is computed based on the weighted average number of common shares outstanding during the year plus dilutive potential common shares considered outstanding during the year (treasury stock method). The weighted average number of common shares has been adjusted retroactively for all periods presented to reflect stock dividends.

	2003	2002	2001
Net income	1,793	1,547	2,397
Dividend on preferred shares	(95)	(30)	(3)
Net income available for common shareholders	1,698	1,517	2,394
Interest on convertible debt	–	–	–
<b>NET INCOME USED IN CALCULATION DILUTED NET INCOME PER SHARE</b>	<b>1,698</b>	<b>1,517</b>	<b>2,394</b>
Numbers in millions			
Weighted average number of common shares outstanding	1,476	1,458	1,412
Dilutive effects from:			
– options	–	–	6
– convertible debt	–	–	1
<b>MAXIMUM WEIGHTED AVERAGE NUMBER OF COMMON SHARES</b>	<b>1,476</b>	<b>1,458</b>	<b>1,419</b>
Amounts in EUR			
Net income per share	1.15	1.04	1.70
Net income per share fully diluted	1.15	1.04	1.69

## SEGMENT INFORMATION – REVENUES AND PRODUCTION

Amounts in millions

2003 USD	2002 USD	%		2003 EUR	2002 EUR	%
<b>REVENUES</b>						
2,006	1,694	18	Life general account single premiums	1,773	1,789	(1)
6,162	5,386	14	Life general account recurring premiums	5,448	5,689	(4)
5,593	5,900	(5)	Life policyholders account single premiums	4,945	6,232	(21)
4,573	3,817	20	Life policyholders account recurring premiums	4,043	4,031	0
18,334	16,797	9	Total life insurance gross premiums	16,209	17,741	(9)
2,786	2,697	3	Accident and health insurance premiums	2,463	2,848	(14)
900	726	24	General insurance premiums	796	767	4
22,020	20,220	9	Total gross premiums	19,468	21,356	(9)
8,316	7,903	5	Investment income insurance activities <sup>1</sup>	7,352	8,347	(12)
1,381	926	49	Fees and commissions	1,221	978	25
401	394	2	Income from banking activities	354	416	(15)
32,118	29,443	9	Total revenues business units	28,395	31,097	(9)
38	44	(14)	Income from other activities	34	47	(28)
<b>32,156</b>	<b>29,487</b>	<b>9</b>	<b>TOTAL REVENUES</b>	<b>28,429</b>	<b>31,144</b>	<b>(9)</b>
<b>REVENUES BY PRODUCT SEGMENT</b>						
27,430	25,029	10	Life insurance	24,251	26,435	(8)
3,315	3,228	3	Accident and health insurance	2,931	3,409	(14)
972	792	23	General insurance	859	837	3
401	394	2	Banking activities	354	416	(15)
38	44	(14)	Other activities	34	47	(28)
<b>32,156</b>	<b>29,487</b>	<b>9</b>	<b>TOTAL REVENUES</b>	<b>28,429</b>	<b>31,144</b>	<b>(9)</b>
<b>14,544</b>	<b>(10,911)</b>		<b>INVESTMENT INCOME FOR ACCOUNT OF POLICYHOLDERS</b>	<b>12,858</b>	<b>(11,524)</b>	
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>						
7,097	6,677	6	Single premiums	6,274	7,052	(11)
2,169	1,681	29	Recurring premiums annualized	1,918	1,776	8
<b>2,879</b>	<b>2,349</b>	<b>23</b>	<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>2,545</b>	<b>2,481</b>	<b>3</b>
<b>DEPOSITS</b>						
5,220	7,178	(27)	Fixed annuities	4,615	7,582	(39)
9,412	9,827	(4)	GICs and funding agreements	8,321	10,379	(20)
6,370	9,902	(36)	Variable annuities	5,632	10,458	(46)
21,002	26,907	(22)	Total	18,568	28,419	(35)
3,279	3,206	2	Savings deposits	2,899	3,386	(14)
<b>24,281</b>	<b>30,113</b>	<b>(19)</b>	<b>TOTAL PRODUCTION ON BALANCE SHEET</b>	<b>21,467</b>	<b>31,805</b>	<b>(33)</b>
<b>NET DEPOSITS</b>						
707	3,394	(79)	Fixed annuities	625	3,585	(83)
410	1,026	(60)	GICs and funding agreements	363	1,084	(67)
2,464	5,190	(53)	Variable annuities	2,178	5,481	(60)
3,581	9,610	(63)	Total	3,166	10,150	(69)
(998)	(318)		Savings deposits	(882)	(336)	
<b>2,583</b>	<b>9,292</b>	<b>(72)</b>	<b>TOTAL NET DEPOSITS</b>	<b>2,284</b>	<b>9,814</b>	<b>(77)</b>
<b>15</b>	<b>372</b>	<b>(96)</b>	<b>INVESTMENT CONTRACTS</b>	<b>13</b>	<b>393</b>	<b>(97)</b>
<b>OFF BALANCE SHEET PRODUCTION</b>						
13,242	12,196	9	Synthetic GICs	11,707	12,881	(9)
13,020	8,639	51	Mutual funds/Collective Trusts and other managed assets	11,511	9,125	26
<b>26,262</b>	<b>20,835</b>	<b>26</b>	<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>23,218</b>	<b>22,006</b>	<b>6</b>
714	718	(1)	<sup>1</sup> Of which indirect income on shares and real estate	631	758	(17)



## AMERICAS

Amounts in millions

	2003 USD	2002 USD	%	2003 EUR	2002 EUR	%
<b>INCOME BY PRODUCT SEGMENT</b>						
Traditional life	724	813	(11)	640	859	(25)
Fixed annuities	378	165	129	334	174	92
GICs and funding agreements	241	257	(6)	213	272	(22)
Life for account of policyholders	82	106	(23)	73	112	(35)
Variable annuities	71	(437)		63	(462)	
Fee business	(19)	5		(17)	5	
Life insurance	1,477	909	62	1,306	960	36
Accident and health insurance	263	233	13	232	246	(6)
<b>TOTAL INSURANCE</b>	<b>1,740</b>	<b>1,142</b>	<b>52</b>	<b>1,538</b>	<b>1,206</b>	<b>28</b>
of which general account	1,606	1,468	9	1,419	1,551	(9)
of which policyholders account <sup>1</sup>	134	(326)		119	(345)	
Income before tax	1,740	1,142	52	1,538	1,206	28
Corporation tax	(501)	(226)	122	(443)	(239)	85
<b>NET INCOME</b>	<b>1,239</b>	<b>916</b>	<b>35</b>	<b>1,095</b>	<b>967</b>	<b>13</b>
<b>REVENUES</b>						
Life general account single premiums	916	942	(3)	810	995	(19)
Life general account recurring premiums	4,747	4,470	6	4,197	4,721	(11)
Life policyholders account single premiums	522	791	(34)	461	835	(45)
Life policyholders account recurring premiums	779	631	23	689	667	3
Total life insurance gross premiums	6,964	6,834	2	6,157	7,218	(15)
Accident and health insurance premiums	2,508	2,469	2	2,217	2,608	(15)
Total gross premiums	9,472	9,303	2	8,374	9,826	(15)
Investment income insurance activities <sup>2</sup>	6,354	6,309	1	5,618	6,663	(16)
Fees and commissions	966	836	16	854	883	(3)
<b>TOTAL REVENUES</b>	<b>16,792</b>	<b>16,448</b>	<b>2</b>	<b>14,846</b>	<b>17,372</b>	<b>(15)</b>
Investment income for account of policyholders	7,704	(5,648)		6,811	(5,965)	
<b>GROSS MARGIN, COMMISSIONS AND EXPENSES</b>						
Gross margin	5,637	4,676	21	4,983	4,939	1
Commissions and expenses	3,897	3,534	10	3,445	3,733	(8)
<b>STANDARDIZED NEW PREMIUM PRODUCTION</b>						
<b>LIFE INSURANCE</b>						
Single premiums	1,291	1,578	(18)	1,141	1,667	(32)
Recurring premiums annualized	947	826	15	837	872	(4)
<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>1,076</b>	<b>984</b>	<b>9</b>	<b>951</b>	<b>1,039</b>	<b>(8)</b>
<b>DEPOSITS</b>						
Fixed annuities	5,220	7,178	(27)	4,615	7,582	(39)
GICs and funding agreements	9,412	9,827	(4)	8,321	10,379	(20)
Variable annuities	6,370	9,902	(36)	5,632	10,458	(46)
<b>TOTAL PRODUCTION ON BALANCE SHEET</b>	<b>21,002</b>	<b>26,907</b>	<b>(22)</b>	<b>18,568</b>	<b>28,419</b>	<b>(35)</b>
<b>OFF BALANCE SHEET PRODUCTION</b>						
Synthetic GICs	13,242	12,196	9	11,707	12,881	(9)
Mutual funds/Collective Trusts and other managed assets	8,305	6,646	25	7,343	7,020	5
<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>21,547</b>	<b>18,842</b>	<b>14</b>	<b>19,050</b>	<b>19,901</b>	<b>(4)</b>

<sup>1</sup>Includes also variable annuities and fee business

<sup>2</sup>Of which indirect income on shares and real estate

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## THE NETHERLANDS

Amounts in EUR millions

	2003	2002	%
<b>INCOME BY PRODUCT SEGMENT</b>			
Traditional life	548	552	(1)
Life for account of policyholders	135	49	176
Fee business	13	0	
Life insurance	696	601	16
Accident and health insurance	44	26	69
General insurance	11	24	(54)
<b>TOTAL INSURANCE</b>	<b>751</b>	<b>651</b>	<b>15</b>
of which general account	603	602	0
of which policyholders account <sup>1</sup>	148	49	
<b>BANKING ACTIVITIES<sup>2</sup></b>	<b>20</b>	<b>8</b>	<b>150</b>
Income before tax	771	659	17
Corporation tax	(179)	(136)	32
<b>NET INCOME</b>	<b>592</b>	<b>523</b>	<b>13</b>
<b>REVENUES</b>			
Life general account single premiums	676	507	33
Life general account recurring premiums	518	564	(8)
Life policyholders account single premiums	592	1,171	(49)
Life policyholders account recurring premiums	1,461	1,331	10
Total life insurance gross premiums	3,247	3,573	(9)
Accident and health insurance premiums	163	162	1
General insurance premiums	459	447	3
Total gross premiums	3,869	4,182	(7)
Investment income insurance activities <sup>3</sup>	1,465	1,397	5
Fees and commissions	265	57	
Income from banking activities	354	416	(15)
<b>TOTAL REVENUES</b>	<b>5,953</b>	<b>6,052</b>	<b>(2)</b>
Investment income for account of policyholders	1,096	(1,165)	
<b>GROSS MARGIN, COMMISSIONS AND EXPENSES</b>			
Gross margin	1,727	1,325	30
Commissions and expenses <sup>4</sup>	956	666	44
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>			
Single premiums	1,164	1,536	(24)
Recurring premiums annualized	156	191	(18)
<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>272</b>	<b>345</b>	<b>(21)</b>
<b>DEPOSITS</b>			
Savings deposits	2,899	3,386	(14)
<b>TOTAL PRODUCTION ON BALANCE SHEET</b>	<b>2,899</b>	<b>3,386</b>	<b>(14)</b>
<b>INVESTMENT CONTRACTS</b>	<b>13</b>	<b>393</b>	<b>(97)</b>
<b>OFF BALANCE SHEET PRODUCTION</b>			
Mutual funds and other managed assets	3,522	1,223	188
<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>3,522</b>	<b>1,223</b>	<b>188</b>

<sup>1</sup>Includes also fee business

<sup>2</sup>Includes income on off balance sheet type products

<sup>3</sup>Of which indirect income on shares and real estate

<sup>4</sup>For 2003 includes the effect of the consolidation of the distribution companies

468 418 12

## UNITED KINGDOM

Amounts in millions

	2003 GBP	2002 GBP	%	2003 EUR	2002 EUR	%
<b>INCOME BY PRODUCT SEGMENT</b>						
Traditional life	1	12	(92)	2	19	(89)
Life for account of policyholders	128	140	(9)	184	224	(18)
Fee business	1	(6)		2	(10)	
<b>LIFE INSURANCE</b>	<b>130</b>	<b>146</b>	<b>(11)</b>	<b>188</b>	<b>233</b>	<b>(19)</b>
of which general account	1	12	(92)	2	19	(89)
of which policyholders account <sup>1</sup>	129	134	(4)	186	214	(13)
Income before tax	130	146	(11)	188	233	(19)
Corporation tax	(37)	(34)	9	(53)	(55)	(4)
<b>NET INCOME</b>	<b>93</b>	<b>112</b>	<b>(17)</b>	<b>135</b>	<b>178</b>	<b>(24)</b>
<b>REVENUES</b>						
Life general account single premiums	189	172	10	274	273	0
Life general account recurring premiums	104	81	28	151	129	17
Life policyholders account single premiums	2,675	2,636	1	3,872	4,196	(8)
Life policyholders account recurring premiums	1,159	1,153	1	1,677	1,835	(9)
Total gross premiums	4,127	4,042	2	5,974	6,433	(7)
Investment income insurance activities <sup>2</sup>	95	92	3	137	147	(7)
Fees and commissions	62	18		90	29	
<b>TOTAL REVENUES</b>	<b>4,284</b>	<b>4,152</b>	<b>3</b>	<b>6,201</b>	<b>6,609</b>	<b>(6)</b>
Investment income for account of policyholders	3,383	(2,680)		4,897	(4,266)	
<b>GROSS MARGIN, COMMISSIONS AND EXPENSES</b>						
Gross margin	572	460	24	828	733	13
Commissions and expenses	442	314	41	640	500	28
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>						
Single premiums	2,719	2,390	14	3,935	3,804	3
Recurring premiums annualized	363	349	4	525	556	(6)
<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>635</b>	<b>588</b>	<b>8</b>	<b>919</b>	<b>936</b>	<b>(2)</b>
<b>OFF BALANCE SHEET PRODUCTION</b>						
Mutual funds and other managed assets	332	437	(24)	481	696	(31)
<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>332</b>	<b>437</b>	<b>(24)</b>	<b>481</b>	<b>696</b>	<b>(31)</b>

<sup>1</sup>Includes also fee business

<sup>2</sup>Of which indirect income on shares and real estate

0

0

0

0

## OTHER COUNTRIES

Amounts in EUR millions

	Hungary			Spain			Other countries		
	2003	2002	%	2003	2002	%	2003	2002	%
<b>INCOME BY PRODUCT SEGMENT</b>									
Traditional life	28	27	4	8	–		(8)	–	
Life for account of policyholders	5	3	67	(4)	(11)	64	(15)	(6)	(150)
Fee business	8	7	14	–	–		–	–	
Life insurance	41	37	11	4	(11)		(23)	(6)	
Accident and health insurance	–	–		7	6	17	–	–	
General insurance	25	22	14	25	17	47	–	(1)	
<b>TOTAL INSURANCE</b>	<b>66</b>	<b>59</b>	<b>12</b>	<b>36</b>	<b>12</b>		<b>(23)</b>	<b>(7)</b>	
of which general account	53	49	8	40	23	74	(8)	(1)	
of which policyholders account <sup>1</sup>	13	10	30	(4)	(11)	64	(15)	(6)	(150)
Income before tax	66	59	12	36	12		(23)	(7)	
Corporation tax	(11)	(11)		(12)	(3)		2	2	
<b>NET INCOME</b>	<b>55</b>	<b>48</b>	<b>15</b>	<b>24</b>	<b>9</b>	<b>167</b>	<b>(21)</b>	<b>(5)</b>	
<b>REVENUES</b>									
Life general account single premium	1	1		11	7	57	1	6	(83)
Life general account recurring premium	75	82	(9)	60	50	20	447	143	
Life policyholders account single premium	5	6	(17)	11	16	(31)	4	8	(50)
Life policyholders account recurring premium	63	50	26	22	25	(12)	131	123	7
Total life insurance gross premiums	144	139	4	104	98	6	583	280	108
Accident and health insurance	1	1		82	78	5	–	(1)	
General insurance	96	91	5	241	229	5	–	–	
Total gross premiums	241	231	4	427	405	5	583	279	109
Investment income insurance activities <sup>2</sup>	66	72	(8)	47	50	(6)	19	18	6
Fees and commissions	11	8	38	1	1		–	–	
<b>TOTAL REVENUES</b>	<b>318</b>	<b>311</b>	<b>2</b>	<b>475</b>	<b>456</b>	<b>4</b>	<b>602</b>	<b>297</b>	<b>103</b>
Investment income for account of policyholders	6	5	20	17	(47)		31	(86)	
<b>GROSS MARGIN, COMMISSIONS AND EXPENSES</b>									
Gross margin	142	135	5	141	120	18	75	74	1
Commissions and expenses	77	76	1	105	108	(3)	97	81	20
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>									
Single	7	7	–	23	23	–	4	15	(73)
Recurring annualized	20	22	(9)	28	14	100	352	121	191
<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>21</b>	<b>22</b>	<b>(5)</b>	<b>30</b>	<b>16</b>	<b>88</b>	<b>352</b>	<b>123</b>	<b>186</b>
<b>OFF BALANCE SHEET PRODUCTION</b>									
Mutual funds/Collective Trusts and other managed assets	160	186	(14)	5	–		–	–	
<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>160</b>	<b>186</b>	<b>(14)</b>	<b>5</b>	<b>–</b>		<b>–</b>	<b>–</b>	

<sup>1</sup>Includes also fee business

<sup>2</sup>Of which indirect income on shares and real estate

## INVESTMENTS, ASSETS AND CAPITAL GEOGRAPHICALLY

Amounts in EUR millions (unless otherwise stated)

Americas USD	United Kingdom GBP	AT DECEMBER 31, 2003	Americas	The Netherlands	United Kingdom	Other countries	Total EUR	Total USD
		<b>INVESTMENTS</b>						
113,396	1,316	Fixed income	89,783	12,330	1,868	1,846	105,827	133,660
3,831	76	Shares and real estate	3,033	5,502	108	141	8,784	11,094
<b>117,227</b>	<b>1,392</b>	<b>TOTAL GENERAL ACCOUNT</b>	<b>92,816</b>	<b>17,832</b>	<b>1,976</b>	<b>1,987</b>	<b>114,611</b>	<b>144,754</b>
12,478	16,592	Fixed income	9,880	11,096	23,542	427	44,945	56,765
33,472	15,085	Shares and real estate	26,502	7,032	21,403	207	55,144	69,647
<b>45,950</b>	<b>31,677</b>	<b>TOTAL POLICYHOLDERS ACCOUNT</b>	<b>36,382</b>	<b>18,128</b>	<b>44,945</b>	<b>634</b>	<b>100,089</b>	<b>126,412</b>
<b>163,177</b>	<b>33,069</b>	<b>TOTAL INSURANCE ACTIVITIES</b>	<b>129,198</b>	<b>35,960</b>	<b>46,921</b>	<b>2,621</b>	<b>214,700</b>	<b>271,166</b>
–	–	Banking activities	–	6,360	–	–	6,360	8,033
<b>63,750</b>	<b>954</b>	<b>OFF BALANCE SHEET ASSETS</b>	<b>50,475</b>	<b>10,514</b>	<b>1,354</b>	<b>509</b>	<b>62,852</b>	<b>79,382</b>
<b>226,927</b>	<b>34,023</b>	<b>TOTAL BUSINESS UNITS</b>	<b>179,673</b>	<b>52,834</b>	<b>48,275</b>	<b>3,130</b>	<b>283,912</b>	<b>358,581</b>
		Other investments					223	281
		Total group					284,135	358,862
168,993	33,681	Assets business units	133,803	45,855	47,788	3,059	230,505	291,128
		Other assets					3,471	4,384
		Total assets on balance sheet					233,976	295,512
17,725	2,173	Capital in units	14,034	2,865	3,083	481	20,463	25,845
		Total capital base					19,797	25,004
		Other net liabilities					666	841
		<b>TOTAL</b>					<b>20,463</b>	<b>25,845</b>
		<b>AT DECEMBER 31, 2002</b>						
		<b>INVESTMENTS</b>						
105,544	980	Fixed income	100,643	10,792	1,507	1,611	114,553	120,132
3,460	88	Shares and real estate	3,299	4,943	135	133	8,510	8,924
<b>109,004</b>	<b>1,068</b>	<b>TOTAL GENERAL ACCOUNT</b>	<b>103,942</b>	<b>15,735</b>	<b>1,642</b>	<b>1,744</b>	<b>123,063</b>	<b>129,056</b>
11,952	15,401	Fixed income	11,397	11,139	23,675	312	46,523	48,789
23,274	12,940	Shares and real estate	22,193	5,934	19,892	186	48,205	50,552
<b>35,226</b>	<b>28,341</b>	<b>TOTAL POLICYHOLDERS ACCOUNT</b>	<b>33,590</b>	<b>17,073</b>	<b>43,567</b>	<b>498</b>	<b>94,728</b>	<b>99,341</b>
<b>144,230</b>	<b>29,409</b>	<b>TOTAL INSURANCE ACTIVITIES</b>	<b>137,532</b>	<b>32,808</b>	<b>45,209</b>	<b>2,242</b>	<b>217,791</b>	<b>228,397</b>
–	–	Banking activities	–	7,167	–	–	7,167	7,516
<b>51,008</b>	<b>806</b>	<b>OFF BALANCE SHEET ASSETS</b>	<b>48,639</b>	<b>1,689</b>	<b>1,239</b>	<b>471</b>	<b>52,038</b>	<b>54,572</b>
<b>195,238</b>	<b>30,215</b>	<b>TOTAL BUSINESS UNITS</b>	<b>186,171</b>	<b>41,664</b>	<b>46,448</b>	<b>2,713</b>	<b>276,996</b>	<b>290,485</b>
		Other investments					378	397
		Total group					277,374	290,882
149,948	29,864	Assets business units	142,985	42,750	45,910	2,541	234,186	245,591
		Other assets					4,020	4,216
		Total assets on balance sheet					238,206	249,807
16,518	2,028	Capital in units	15,751	2,605	3,117	399	21,872	22,937
		Total capital base					20,058	21,035
		Other net liabilities					1,814	1,902
		<b>TOTAL</b>					<b>21,872</b>	<b>22,937</b>

## FIXED INCOME INVESTMENTS GENERAL ACCOUNT

Amounts in EUR millions (unless otherwise stated)

	Americas USD	The Netherlands EUR	United Kingdom GBP	Other countries EUR	Total EUR	In % of total
<b>AT DECEMBER 31, 2003</b>						
Treasuries/Agencies	6,387	5,067	224	1,080	11,522	11
High quality (AAA)	16,128	566	209	104	13,737	13
High quality (AA)	7,837	319	183	247	7,031	7
Investment grade (A)	30,061	867	596	357	25,871	24
Investment grade (BBB)	29,106	472	103	7	23,670	22
High yield (BB+ or less)	7,421	62	0	2	5,940	6
Mortgages	14,036	4,675	0	7	15,795	15
Others	2,420	302	1	42	2,261	2
<b>TOTAL</b>	<b>113,396</b>	<b>12,330</b>	<b>1,316</b>	<b>1,846</b>	<b>105,827</b>	<b>100</b>

	Americas USD	The Netherlands EUR	United Kingdom GBP	Other countries EUR	Total EUR	In % of total
<b>AT DECEMBER 31, 2002</b>						
Treasuries/Agencies	6,890	2,294	220	862	10,064	9
High quality (AAA)	13,584	1,608	188	101	14,951	13
High quality (AA)	9,161	689	176	224	9,918	9
Investment grade (A)	28,578	647	311	280	28,657	25
Investment grade (BBB)	25,195	272	81	20	24,441	21
High yield (BB+ or less)	6,705	51	2	5	6,453	6
Mortgages	13,118	4,924	0	8	17,441	15
Others	2,313	307	2	111	2,628	2
<b>TOTAL</b>	<b>105,544</b>	<b>10,792</b>	<b>980</b>	<b>1,611</b>	<b>114,553</b>	<b>100</b>

## FACE VALUE AND TOTAL SUMS INSURED

Americas USD	United Kingdom GBP	<b>YEAR 2003 LIFE INSURANCE</b>	Americas	The Netherlands	United Kingdom	Hungary	Spain	Other countries	Total EUR
		<b>NEW INSURANCE WRITTEN</b>							
94,266	8,017	Individual	83,340	2,015	11,604	512	325	2,659	100,455
12,705	1,466	Group	11,233	4,009	2,122	352	460	0	18,176
<b>106,971</b>	<b>9,483</b>	<b>TOTAL 2003</b>	<b>94,573</b>	<b>6,024</b>	<b>13,726</b>	<b>864</b>	<b>785</b>	<b>2,659</b>	<b>118,631</b>
<b>128,350</b>	<b>5,883</b>	<b>TOTAL 2002</b>	<b>135,562</b>	<b>7,509</b>	<b>9,363</b>	<b>271</b>	<b>218</b>	<b>1,303</b>	<b>154,226</b>
		<b>NET INCREASE</b>							
105,006	2,378	Individual	(82,066)	(2,894)	(2,072)	(94)	271	1,597	(85,258)
2,840	(1,684)	Group	(7,868)	1,856	(3,761)	216	289	0	(9,268)
<b>107,846</b>	<b>694</b>	<b>TOTAL 2003</b>	<b>(89,934)</b>	<b>(1,038)</b>	<b>(5,833)</b>	<b>122</b>	<b>560</b>	<b>1,597</b>	<b>(94,526)</b>
<b>180,426</b>	<b>(2,125)</b>	<b>TOTAL 2002</b>	<b>8,458</b>	<b>(3,855)</b>	<b>(9,599)</b>	<b>28</b>	<b>(429)</b>	<b>1,686</b>	<b>(3,711)</b>
		<b>TOTAL SUMS INSURED AT YEAR-END</b>							
1,126,087	48,355	Individual	891,598	43,144	68,607	1,269	2,228	6,333	1,013,179
65,366	9,891	Group	51,755	69,773	14,033	472	1,003	0	137,036
<b>1,191,453</b>	<b>58,246</b>	<b>TOTAL 2003</b>	<b>943,353</b>	<b>112,917</b>	<b>82,640</b>	<b>1,741</b>	<b>3,231</b>	<b>6,333</b>	<b>1,150,215</b>
<b>1,083,607</b>	<b>57,552</b>	<b>TOTAL 2002</b>	<b>1,033,287</b>	<b>113,955</b>	<b>88,473</b>	<b>1,619</b>	<b>2,671</b>	<b>4,736</b>	<b>1,244,741</b>

## DEFERRED POLICY ACQUISITION COSTS

Amounts in EUR millions

<b>AT DECEMBER 31, 2003</b>	Americas	The Netherlands	United Kingdom	Other countries	Total
Traditional life	3,893	199	151	149	4,392
Fixed annuities	1,605	–	–	–	1,605
GICs and funding agreements	28	–	–	–	28
Life for account of policyholders	639	798	3,561	28	5,026
Variable annuities	1,300	–	–	–	1,300
Fee business	90	–	6	–	96
Accident and health	910	37	–	–	947
<b>TOTAL</b>	<b>8,465</b>	<b>1,034</b>	<b>3,718</b>	<b>177</b>	<b>13,394</b>
Of which VOBA	2,745	–	1,205	–	3,950

<b>AT DECEMBER 31, 2002</b>	Americas	The Netherlands	United Kingdom	Other countries	Total
Traditional life	4,788	248	149	68	5,253
Fixed annuities	1,863	–	–	–	1,863
GICs and funding agreements	54	–	–	–	54
Life for account of policyholders	741	831	3,718	29	5,319
Variable annuities	1,492	–	–	–	1,492
Fee business	102	–	6	–	108
Accident and health	1,073	36	–	–	1,109
<b>TOTAL</b>	<b>10,113</b>	<b>1,115</b>	<b>3,873</b>	<b>97</b>	<b>15,198</b>
Of which VOBA	4,002	–	1,345	–	5,347



## GROUP COMPANIES

AEGON's most important group companies (100% unless indicated otherwise).

### THE AMERICAS

AEGON USA, Inc., Cedar Rapids, (Iowa USA)  
Commonwealth General Corporation, Wilmington (Delaware USA)  
First AUSA Life Insurance Company, Baltimore (Maryland 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)  
Transamerica Corporation, Wilmington (Delaware USA)  
Transamerica Financial Life Insurance Company, Inc., Purchase (New York USA)  
Transamerica Life Canada, Scarborough (Ontario Canada)  
Transamerica Life Insurance and Annuity Company, Charlotte (North Carolina USA)  
Transamerica Life Insurance Company, Cedar Rapids (Iowa USA)  
Transamerica Occidental Life Insurance Company, Cedar Rapids (Iowa USA)  
Veterans Life Insurance Company, Springfield (Illinois USA)  
Western Reserve Life Assurance Co. of Ohio, Columbus (Ohio USA)

### THE NETHERLANDS

AEGON Bank N.V., Utrecht  
AEGON Financiële Diensten B.V., The Hague  
AEGON International N.V., The Hague  
AEGON Levensverzekering N.V., The Hague  
AEGON NabestaandenZorg N.V., Groningen  
AEGON Nederland N.V., The Hague  
AEGON Schadeverzekering N.V., The Hague  
AEGON Spaarkas N.V., The Hague  
AEGON Vastgoed Holding B.V., The Hague  
Meeüs Groep B.V., Amersfoort  
Sparbeleg Kas N.V., Utrecht  
TKP Pensioen B.V., Groningen

### UNITED KINGDOM

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

### OTHER COUNTRIES

ÁB-AEGON Általános Biztosító Rt., Budapest (Hungary)  
AEGON España S.A., Madrid (Spain) (99.98%)  
AEGON Lebensversicherungs-AG, Düsseldorf (Germany)  
AEGON Life Insurance (Taiwan) Inc., Taipei (Taiwan)

The legally required list of participations as set forth in articles 379 and 414 of Book 2 of the Dutch Civil Code has been registered with the Trade Register in The Hague.

## BALANCE SHEETS OF AEGON N.V. AT DECEMBER 31

Amounts in EUR millions

	Note number	2003	2002
<b>INVESTMENTS</b>			
<b>GROUP COMPANIES</b>			
Shares in group companies	1	12,252	12,464
Loans to group companies	2	4,732	5,361
		<b>16,984</b>	<b>17,825</b>
<b>OTHER LOANS</b>	3	201	352
		<b>17,185</b>	<b>18,177</b>
<b>RECEIVABLES</b>			
Receivables from group companies		2,863	2,394
		<b>2,863</b>	<b>2,394</b>
<b>OTHER ASSETS</b>			
Liquid assets		34	8
Other assets		29	24
		<b>63</b>	<b>32</b>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		277	136
		<b>277</b>	<b>136</b>
<b>TOTAL ASSETS</b>		<b>20,388</b>	<b>20,739</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	4	238	226
Tax-free paid-in surplus	5	7,116	7,125
Revaluation account	5	2,674	2,598
Other surplus fund	5	2,311	2,765
Net income		1,793	1,517 <sup>1</sup>
		<b>14,132</b>	<b>14,231</b>
<b>PERPETUAL CUMULATIVE SUBORDINATED DEBENTURE LOANS</b>		<b>1,517</b>	<b>1,517</b>
<b>SUBORDINATED LOANS</b>		<b>452</b>	<b>616</b>
<b>EQUITY AND SUBORDINATED LOANS</b>		<b>16,101</b>	<b>16,364</b>
<b>PROVISIONS</b>		<b>80</b>	<b>342</b>
<b>LONG-TERM LIABILITIES</b>	6	<b>2,708</b>	<b>1,618</b>
<b>CURRENT LIABILITIES</b>			
Amounts owed to credit institutions		1,220	2,198
Other payables		12	135
		<b>1,232</b>	<b>2,333</b>
<b>ACCRUALS AND DEFERRED INCOME</b>		<b>267</b>	<b>82</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>20,388</b>	<b>20,739</b>

<sup>1</sup> Excluding dividend on preferred shares of EUR 30 million.

For notes: see page 137 and following.

## INCOME STATEMENTS OF AEGON N.V.

Amounts in EUR millions

	2003	2002	2001
Net income group companies	1,811	1,511	2,337
Other income	(18)	36	60
<b>NET INCOME</b>	<b>1,793</b>	<b>1,547</b>	<b>2,397</b>

## NOTES TO THE BALANCE SHEETS OF AEGON N.V.

Amounts in EUR millions

### ACCOUNTING PRINCIPLES

Unless otherwise stated, balance sheet items are valued in accordance with the accounting principles described in the notes to the consolidated balance sheets.

<b>1 SHARES IN GROUP COMPANIES</b>	<b>2003</b>	<b>2002</b>
Balance at January 1	12,464	11,850
Capital contribution and acquisitions	–	3,756
Divestitures	(119)	(1,149)
Net income for the financial year	1,811	1,511
Revaluations	(1,904)	(3,504)
<b>BALANCE AT DECEMBER 31</b>	<b>12,252</b>	<b>12,464</b>

The group companies are stated at their net asset value.

<b>2 LOANS TO GROUP COMPANIES</b>	<b>2003</b>	<b>2002</b>
Balance at January 1	5,361	6,490
Additional loans	1,439	941
Repayments or payments received	(1,039)	(1,019)
Other changes	(1,029)	(1,051)
<b>BALANCE AT DECEMBER 31</b>	<b>4,732</b>	<b>5,361</b>

<b>3 OTHER LOANS</b>	<b>2003</b>	<b>2002</b>
Balance at January 1	352	435
Repayments or payments received	(151)	(83)
<b>BALANCE AT DECEMBER 31</b>	<b>201</b>	<b>352</b>

<b>4 SHARE CAPITAL</b>	<b>Common shares</b>	<b>Preferred shares A</b>	<b>Preferred shares B</b>	<b>Total</b>
Authorized	360	125	125	610
Unissued	178	72	122	372
<b>ISSUED AND OUTSTANDING</b>	<b>182</b>	<b>53</b>	<b>3</b>	<b>238</b>

Vereniging AEGON, based in The Hague, holds all of the issued preferred shares.

AEGON N.V. and Vereniging AEGON have amended the option arrangements under the 1983 Merger Agreement. Under the amended option arrangements Vereniging AEGON, in case of an issuance of new shares by AEGON N.V., has the right to have issued to it as many class B preferred shares as shall enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of total voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. On September 19, 2003, and December 29, 2003, Vereniging AEGON exercised its option rights following the dilution caused by the stock dividend issuances of AEGON N.V. and acquired 10,220,000 respectively 880,000 class B preferred shares at par value to correct this dilution.

AEGON N.V. and Vereniging AEGON have entered into a preferred shares voting rights agreement, pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging AEGON has agreed to exercise one vote only per preferred share, except in the event of a 'special cause', such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board. If, in its sole discretion, Vereniging AEGON determines that a 'special cause' has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.

In both 2001 and 2002 AEGON N.V. entered into Total Return Swaps (TRSs) with Vereniging AEGON in order to hedge the stock option plan for the respective years. The TRSs give AEGON N.V. the right to the capital gains on AEGON N.V. shares (11.3 million for the 2001 TRS and 7.8 million for the 2002 TRS) at the termination date and to the dividends on these shares during the contract period. The capital gains are calculated based on an exercise price of EUR 32.04 for the 2001 TRS and EUR 26.70 for the 2002 TRS. Any losses compared to the exercise price will be paid by AEGON N.V. to Vereniging AEGON upon termination. AEGON N.V. in return will pay interest

## NOTES TO THE BALANCE SHEETS OF AEGON N.V.

Amounts in EUR millions

to Vereniging AEGON on a quarterly basis over the (remaining) amount outstanding under the TRSs. The interest rate is equal to the 3 month EURIBOR plus a spread.

The 2001 TRS ends on March 12, 2006, and the 2002 TRS matures on March 11, 2009, but both swaps may be terminated earlier, either partly or entirely, at the option of AEGON N.V. The TRSs are carried at market value with changes in market value reported in equity.

In 2002 Vereniging AEGON and AEGON N.V. agreed to mark to market the existing TRS agreements that hedge the 2001 and 2002 stock option and stock appreciation rights (SARs) plans based on the EUR 10.04 closing price of AEGON N.V. shares on Euronext Amsterdam at September 17, 2002. This resulted in a payment to Vereniging AEGON of EUR 378.3 million.

	2003	2002
<b>NUMBER OF COMMON SHARES</b>		
Balance at January 1	1,444,579,122	1,422,253,234
Issuance of shares	–	–
Stock dividend	69,798,678	22,325,888
Exercise of options	–	–
<b>BALANCE AT DECEMBER 31</b>	<b>1,514,377,800</b>	<b>1,444,579,122</b>

The weighted average number of EUR 0.12 common shares over 2003 was 1,476,499,310 (2002: 1,457,614,959).

The shares repurchased by AEGON, although included in the issued and outstanding number of shares, are excluded from the calculation of the weighted average number of shares (see page 140). The number has been adjusted for stock dividend.

### STOCK APPRECIATION RIGHTS AND STOCK OPTIONS

Senior executives of AEGON companies as well as other AEGON employees have been offered AEGON SARs in 2003 and 2002 which do not entitle the holder to buy AEGON shares but provide the same financial benefits. Stock options have been offered in 2001 and previous years. Rights and options have been granted at an exercise price equal to the market price of the shares at the date of the grant. The rights granted in 2003 and 2002 vest after two years and can only be exercised during the five years after the vesting date. The plans for 1997 up to and including 2001 can be exercised three years after being granted and then during a period of two years. Plans for SARs and, in the past, stock option plans can only be established after the prior consent of the annual General Meeting of Shareholders. If, subsequently, the Executive Board decides to implement such plans, that decision has to be approved by the Supervisory Board. Options granted pursuant to the purchase agreement with Providian have various expiration dates. The options granted in 1997 to senior executives of former Providian business units fully vest in three years and the exercise period is up to ten years, with the latest period ending in August 2008.

In compliance with regulations, SARs and options cannot be exercised in black-out periods.

The following tables set forth the changes in the years 2001, 2002 and 2003 as well as the breakdown of SARs and options outstanding.

	Number of options/SARs	Weighted average exercise price <sup>1</sup> in EUR
Balance at January 1, 2001	41,926,284	30.22
Issued	11,288,800	34.84
Exercised	(3,920,532)	12.46
Lapsed	(25,374)	49.54
Balance at December 31, 2001	49,269,178	32.69
Issued	11,555,700	26.70
Exercised	(883,376)	16.36
Lapsed	(5,004,000)	17.31
Balance at December 31, 2002	54,937,502	34.98
Issued	11,447,300	6.30
Exercised	(26,840)	10.14
Lapsed	(10,690,852)	28.55
<b>BALANCE AT DECEMBER 31, 2003</b>	<b>55,667,110</b>	<b>37.38</b>

<sup>1</sup> Adjusted for the stock splits in 1998 and 2000 as appropriate.

Options/SARs	Original number <sup>1</sup>	January 1, 2003 <sup>1</sup>	Outstanding December 31, 2003 <sup>1</sup>	Exercise price in EUR <sup>1</sup>	Exercise period <sup>3</sup>
1997	9,479,500	344,500	–	17.36	until January 1, 2004
Providian	7,204,384	1,186,402	1,099,710	17.85 <sup>2</sup>	until August 6, 2008
1998	11,518,000	11,027,500	741,000	29.02	until May 23, 2004
1999 <sup>4</sup>	8,925,300	8,924,900	8,924,900	46.95	until March 6, 2004
2000 <sup>4</sup>	10,609,700	10,609,700	10,609,700	34.50	until March 14, 2005
2001 <sup>4</sup>	11,288,800	11,288,800	11,288,800	34.84	until March 13, 2006
2002 <sup>5</sup>	11,555,700	11,555,700	11,555,700	26.70	until March 12, 2009
2003 <sup>5</sup>	11,447,300		11,447,300	6.30	until March 11, 2010
	<b>82,028,684</b>	<b>54,937,502</b>	<b>55,667,110</b>		

<sup>1</sup> Adjusted for the stock splits in 1998 and 2000 as appropriate.

<sup>2</sup> Weighted average exercise price of the outstanding options in USD calculated at the closing rate.

<sup>3</sup> Up to and including the 1999 series the exercise period for a small part of the options is 74 months.

<sup>4</sup> Including stock appreciation rights, which do not entitle the holder to buy AEGON shares but provide the same financial benefits.

<sup>5</sup> Stock appreciation rights, which do not entitle the holder to buy AEGON shares but provide the same financial benefits; only employees in Canada were granted stock options: 438,200 (2002: 263,100).

Stock options exercisable as of December 31, 2003, amount to 18,070,310 (2002: 20,395,702 and 2001: 18,445,778) and their weighted average exercise price amounts to EUR 38.66 (2002: EUR 35.24 and 2001: EUR 24.75).

The market value of the SARs and stock options granted during the year amounts to EUR 20 million at the grant date (2002: EUR 76 million and 2001: EUR 83 million). This value was estimated using the binomial option pricing model, taking into account that the SARs and options granted during 2003 and 2002 vest after two years and the options granted in 2001 cannot be exercised within the first three years. The liabilities related to SARs and options are valued at market value. The change in value of the liabilities is recognized in the income statement under expenses.

The breakdown of the SARs and stock options granted in 2003 is as follows: Executive Board nil, other senior executives 4,350,500 and other employees 7,096,800 (2002: 150,000, 4,041,000 and 7,364,700 and 2001: 400,000, 3,824,700 and 7,064,100 respectively). For detailed information about the Executive Board's SARs and options, refer to page 118.

## 5 SURPLUS FUNDS

	Paid-in surplus	Revaluation account	Other surplus fund	Total 2003	Total 2002
Balance at January 1	7,125	2,598	2,765	12,488	13,305
Net income 2002/2001 excluding preferred dividend			1,517	1,517	2,394
Final dividend and interim dividend			(147)	(147)	(731)
Paid-in on preferred shares				–	2,053
Repurchased and sold own shares			19	19	0
Valuation equity swap			(5)	(5)	(318)
Stock dividend	(9)			(9)	(2)
Revaluation group companies:					
Goodwill			(358)	(358)	(70)
Currency exchange rate differences		(2)	(1,909)	(1,911)	(1,487)
Sale TFC businesses			307	307	–
Other revaluations		78	(20)	58	(1,947)
Currency exchange rate differences			130	130	(703)
Settlement stock option plans				–	(6)
Other movements			12	12	0
<b>BALANCE AT DECEMBER 31</b>	<b>7,116</b>	<b>2,674</b>	<b>2,311</b>	<b>12,101</b>	<b>12,488</b>

The minimum amount of the revaluation account for the consolidated investments as required by law amounts to EUR 1,393 million (2002: EUR 542 million).

The legal reserve for currency differences on foreign subsidiaries refers to accumulated translation differences amounting to EUR (1,579) million (2002: EUR 166 million) and is included in the other surplus fund.

## NOTES TO THE BALANCE SHEETS OF AEGON N.V.

Amounts in EUR millions

	Shares		Real estate		Total	
	2003	2002	2003	2002	2003	2002
<b>CONSOLIDATED REVALUATION ACCOUNT SHARES AND REAL ESTATE</b>						
Balance of revaluations at January 1	2,040	4,105	558	535	2,598	4,640
Unrealized gains and losses on shares and real estate	575	(1,572)	104	12	679	(1,560)
Unrealized gains and losses in previous years						
on shares and real estate sold in the reporting year	249	1,415	22	(78)	271	1,337
Realized gains and losses on shares and real estate	(249)	(1,421)	(21)	78	(270)	(1,343)
Transfer to the income statements of indirect income						
on shares and real estate	(573)	(707)	(58)	(51)	(631)	(758)
Changes in the provision for deferred taxation	23	304	(6)	19	17	323
Other changes	28	(84)	(18)	43	10	(41)
<b>BALANCE AT DECEMBER 31</b>	<b>2,093</b>	<b>2,040</b>	<b>581</b>	<b>558</b>	<b>2,674</b>	<b>2,598</b>

Unrealized gains and losses on investments are due to changes in stock exchange quotations and reappraisal of real estate of all activities.

The indirect income is released from this revaluation account if and as far as each of the individual balances for shares and real estate are positive. Impairments of shares are charged to the realized part of the revaluation account. At December 31, 2003, the minimum reserves as required by law include EUR 876 million for shares and EUR 517 million for real estate. In 2004, these amounts will be kept in the revaluation account. The realized portion, amounting to EUR 1,281 million, will be transferred to the other surplus fund at January 1, 2004.

### OTHER SURPLUS FUND

By virtue of acquisitions in accordance with article 98, paragraph 5 of Book 2 of the Dutch Civil Code, on the balance sheet date AEGON kept 27,429,342 of its own common shares with a face value of EUR 0.12 each. The shares have been purchased to hedge stock appreciation rights and stock options granted to executives and employees.

Movements in the numbers of repurchased own shares were as follows:

Balance at January 1	30,918,580
Purchase: 1 transaction on May 13, 2003, price EUR 9.72	6,878,962
Sale: 26 transactions, average price EUR 8.28	(10,368,200)
<b>BALANCE AT DECEMBER 31</b>	<b>27,429,342</b>

The purchase and sale value of the related shares have been deducted from respectively added to the other surplus fund.

Goodwill is the difference between acquisition price and net asset value, based on AEGON accounting principles. The calculated amount is charged to shareholders' equity in the year of acquisition or at first time consolidation.

<b>6 LONG-TERM LIABILITIES</b>	<b>2003</b>	<b>2002</b>
Remaining terms up to 3 years	854	1,215
Remaining terms 4-5 years	893	7
Remaining terms over 5 years	961	396
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>2,708</b>	<b>1,618</b>
Redemptions due in 2004/2003	565	521

Redemptions are included in long-term liabilities.

The repayment periods of borrowings vary from in excess of one year up to a maximum of 27 years. The interest rates vary from 1.49% to 9.00% per annum.

The market value of the long-term liabilities amounts to EUR 2,896 million (2002: EUR 1,552 million).



## COMMITMENTS AND CONTINGENCIES

AEGON N.V. has guaranteed and is severally liable for the following:

Due and punctual payment of payables due under Letter of Credit Agreements applied for by AEGON N.V. as co-applicant with its subsidiary companies AEGON USA, Inc., Commonwealth General Corporation and Transamerica Corporation (EUR 1,8 billion). At December 31, 2003, the amount due and payable was nil.

Due and punctual payment of payables by the consolidated group companies AEGON Funding Corp., AEGON Funding Corp. II and Transamerica Corporation with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs (EUR 5,031 million).

Due and punctual payment of payables by the non-consolidated group company Transamerica Finance Corporation with respect to:

- a. debt securities issued under the following three indentures: the indenture with U.S. Bank National Association (successor in interest to Continental Illinois National Bank and Trust Company of Chicago) first dated March 15, 1981, as amended, and both indentures with BNY Midwest Trust Company (successor in interest to Harris Trust and Savings Bank) first dated July 1, 1982, and April 1, 1991, respectively, as amended (EUR 835 million); and
- b. contractual obligations towards NCC Key Company as Owner Participant and U.S. Bank National Association (successor in interest to State Street Bank and Trust Company of Connecticut National Association) as Owner Trustee under a Participation Agreement dated December 30, 1996, (EUR 42 million).

With respect to the former subsidiary FGH BANK N.V. (sold to Hypo-Vereinsbank):

- a. payables due to all unsubordinated and non-privileged creditors of FGH BANK on account of deeds prior to February 27, 1987, and loans contracted by FGH BANK after February 27, 1987, up to March 30, 1998; and
- b. payables due by FGH BANK under guarantees rendered or several liabilities assumed prior to February 27, 1987.

The sales agreement with Hypo-Vereinsbank includes recourse against that bank for liabilities emerging from the above guarantees.

## THE HAGUE, MARCH 11, 2004

### SUPERVISORY BOARD

M. Tabaksblat  
H. de Ruiter  
D.G. Eustace  
O.J. Olcay  
T. Rembe  
W.F.C. Stevens  
K.J. Storm  
F.J. de Wit  
L.M. van Wijk

### EXECUTIVE BOARD

D.J. Shepard  
J.B.M. Streppel  
J.G. van der Werf  
A.R. Wynaendts

## OTHER INFORMATION

### PROPOSAL FOR PROFIT APPROPRIATION

Appropriation of profit will be determined in accordance with the articles 31 and 32 of the Articles of Incorporation of AEGON N.V. The provisions can be summarized as follows:

1. The General Meeting of Shareholders shall adopt the annual accounts.
2. If the adopted profit and loss account shows a profit, the Supervisory Board may decide, upon the proposal of the Executive Board, to set aside part of the profit to augment and/or form reserves.
3. From the remaining net profit, if it is sufficient to this end, first of all the holders of preferred shares shall receive a dividend on the amount paid-in on their preferred shares, the percentage of which, on an annual basis, shall be equal to the European Central Bank's fixed interest percentage for basic refinancing transactions to be increased by 1.75 percentage points, all applicable to the first trading day on Euronext Amsterdam in the financial year to which the dividend relates. Apart from this, no other dividend is to be paid on the preferred shares.
4. The remaining profit shall be put at the disposal of the General Meeting of Shareholders.
5. The Executive Board may, subject to the approval of the Supervisory Board, make one or more interim distributions to the holders of common shares and/or to the holders of preferred shares, the latter subject to the maximum dividend amount set forth under 3.
6. A distribution on common shares may take place as a cash payment or as a payment in common shares. In addition, the Executive Board may, subject to the approval of the Supervisory Board, decide to give shareholders the option to elect to receive a distribution as a cash payment or as a payment in common shares. In all cases distribution will be made out of the profit and/or the reserves.

It is proposed to the annual General Meeting of Shareholders on April 22, 2004, to pay a dividend for the year 2003 of EUR 0.40 per common share of EUR 0.12 par value, which after taking into account the EUR 0.20 interim dividend, leads to a final dividend of EUR 0.20 per common share.

It is also proposed that the final dividend will be made available entirely in cash or entirely in stock, at the option of the shareholder. The value of the stock dividend will be approximately 5% higher than the value of the cash dividend and will be paid out of the paid-in surplus fund. The period during which shareholders can elect is from April 26 up to and including May 3, 2004.

In order to fully reflect the prevailing market price of AEGON N.V. common shares within the indication provided, the number of dividend coupons that gives entitlement to a new common share of EUR 0.12 will be determined on May 10, 2004, after 5.30 p.m., based upon the average share price (quotation Euronext Amsterdam) in the five trading days from May 4 up to and including May 10, 2004.

In accordance with article 32, paragraph 3 of the Articles of Incorporation, a dividend equal to 4.5% of the paid up amount of the preferred stock will be distributed in cash.

Upon approval of this proposal, profit will be appropriated as follows:

	2003
Dividend on preferred shares	95
Interim dividend on common shares (cash portion)	147
Final dividend on common shares (cash portion)	297
Earnings to be retained	1,254
<b>NET INCOME</b>	<b>1,793</b>

### SUBSEQUENT EVENTS

On January 2, 2004, AEGON closed the acquisition of a 45% participation in Unirobe, a group of insurance intermediary companies in the Netherlands.

On August 5, 2003, AEGON announced an agreement to sell most of the commercial lending business 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 January 28, 2004, AEGON announced that it had reached final agreement on a strategic partnership with Caja de Ahorros del Mediterráneo (CAM), a large savings bank in Spain. The agreement comprises the establishment of a new Spanish holding company, which will be owned 50.01% by CAM and 49.99% by AEGON. CAM will contribute 100% of its insurance subsidiary Mediterráneo Vida to the holding company and provide exclusive access to its customer base through its network of 851 branches. AEGON will contribute EUR 150 million in cash to the holding company and an additional EUR 250 million in high quality financial assets. At the end of the fifth year, the final consideration for the insurance subsidiary will be determined on the basis of achieved performance and according to a pre-agreed formula. After the tenth year, parties have agreed to reassess the legal structure in place and both have the right to unwind the holding company without terminating the partnership. If it is decided to unwind the holding company, CAM and AEGON each will own 50% of the life insurance company directly. The EUR 250 million in high quality financial assets plus accrued investment income will return to AEGON. The remainder of the assets of the holding company will be transferred to CAM. The partnership is subject to regulatory approval. The participation in the joint venture will be recognized as net asset value under group companies and participations.

## MAJOR SHAREHOLDERS

### VERENIGING AEGON

Vereniging AEGON is the continuation of the former mutual insurer AGO. In 1978, AGO demutualized and Vereniging AGO became the only shareholder of AGO Holding N.V., which was the holding company for its insurance operations. In 1983, AGO Holding N.V. and Ennia N.V. merged into AEGON N.V. Vereniging AGO initially received approximately 49% of the common shares (which gradually was reduced to less than 40%) and all of the preferred shares in AEGON N.V., giving it voting majority in AEGON N.V., and changed its name into Vereniging AEGON.

The objective of Vereniging AEGON is the balanced representation of the interests of AEGON N.V. and all of its stakeholders, including shareholders, AEGON group companies, insured parties, employees and other relations of the companies.

In accordance with the 1983 Merger Agreement, Vereniging AEGON had certain option rights on preferred shares to prevent dilution of voting power as a result of new share issuances by AEGON N.V. This enabled Vereniging AEGON to maintain voting control at the General Meeting of Shareholders of AEGON N.V. In September 2002, AEGON N.V. effected a non-dilutive capital restructuring whereby Vereniging AEGON sold 350,000,000 of its common shares, of which 143,600,000 common shares were sold directly by Vereniging AEGON in a secondary offering outside the United States and 206,400,000 common shares were purchased by AEGON N.V. from Vereniging AEGON. AEGON N.V. subsequently sold these common shares in a global offering. The purchase price for the 206,400,000 common shares sold by Vereniging AEGON to AEGON N.V. was EUR 2,064,000,000, which amount Vereniging AEGON contributed as additional paid-in capital on the existing AEGON N.V. preferred shares, all held by Vereniging AEGON. As a result of these transactions, Vereniging AEGON's beneficial ownership interest in AEGON N.V.'s common shares decreased from approximately 37% to approximately 12% and its beneficial ownership interest in AEGON N.V.'s voting shares (excluding issued common shares held in treasury by AEGON N.V.) decreased from approximately 52% to approximately 33%.

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. The relationship between Vereniging AEGON and AEGON N.V. was changed as follows:

- The 440,000,000 preferred shares with nominal value of EUR 0.12 held by Vereniging AEGON were converted into 211,680,000 new class A preferred shares with nominal value of EUR 0.25 and the paid-in par capital on the preferred shares was increased by EUR 120,000 to EUR 52,920,000. The voting rights pertaining to the new preferred shares (the class A preferred shares as well as the class B preferred shares which may be issued to Vereniging AEGON under the option agreement as discussed below) were adjusted accordingly to 25/12 vote per preferred share.
- AEGON N.V. and Vereniging AEGON have entered into a preferred shares voting rights agreement, pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging AEGON has agreed to exercise one vote only per preferred share, except in the event of a 'special cause', such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging AEGON determines that a 'special cause' has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.
- AEGON N.V. and Vereniging AEGON have amended the option arrangements under the 1983 Merger Agreement. Under the amended option arrangements Vereniging AEGON, in case of an issuance of new shares by AEGON N.V., has the right to have issued to it as many class B preferred shares as shall enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of total voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. On September 19, 2003, and December 29, 2003, Vereniging AEGON exercised its option rights following the dilution caused by the stock dividend issuances of AEGON N.V. and acquired 10,220,000 respectively 880,000 class B preferred shares at par value to correct this dilution.

Development of shareholding in AEGON N.V.	Common	Preferred A	Preferred B
<b>NUMBER OF SHARES</b>			
As of January 1, 2003	171,974,055	211,680,000	
Stock dividend 2002 received	6,878,962		
Exercise option right Pref B shares			10,220,000
Sale of stock, offering price of EUR 9.72 per share	(6,878,962)		
Interim stock dividend 2003 received	3,070,965		
Exercise option right Pref B shares			880,000
Sale of stock, offering price of EUR 11.6536 per share	(3,070,965)		
<b>AS OF DECEMBER 31, 2003</b>	<b>171,974,055</b>	<b>211,680,000</b>	<b>11,100,000</b>

Accordingly, under normal circumstances the voting power of Vereniging AEGON, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by AEGON N.V.) at December 31, 2003, amounts to approximately 23%. In the event of a 'special cause', Vereniging AEGON's voting rights will increase to currently 32.60% for up to six months per 'special cause'.

At December 31, 2003 the General Meeting of Members of Vereniging AEGON consisted of 21 members. The majority of the voting rights is with nineteen of the members not being employees or former employees of AEGON N.V. or one of the AEGON group companies, nor current or former members of the Supervisory Board or the Executive Board of AEGON N.V. The two other members are both elected by the General Meeting of Members from among the members of the Executive Board of AEGON N.V.

Vereniging AEGON has an Executive Committee consisting of seven members, five of whom, including the chairman and the vice-chairman, are not nor have ever been, related to the AEGON group. The other two members are also member of the Executive Board of AEGON N.V. When a vote in the Executive Committee results in a tie, the General Meeting of Members has the deciding vote.

The annual report 2003 of Vereniging AEGON and further information may be obtained through the Secretary (telephone: +31 70 3448288, e-mail: [Secretariaat@VerenigingAEGON.nl](mailto:Secretariaat@VerenigingAEGON.nl), fax: +31 70 3477929).

#### **OTHER MAJOR SHAREHOLDERS**

Based on Schedule 13G as amended February 13, 2004, filed with the SEC by Capital Group International, Inc. on behalf of itself and certain of its wholly-owned subsidiaries (Capital International Limited, Capital International S.A., Capital International Research and Management, Inc. dba Capital International, Inc., and Capital Guardian Trust Company), Capital Group International may be deemed to be the beneficial owner of 142,329,520, or approximately 9.4%, of AEGON's outstanding common shares at December 31, 2003, as a result of its being the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over these common shares. The Schedule 13G further reports that Capital Group International, Inc. does not itself have investment power or voting power over these common shares. The Schedule 13G also reports that Capital Guardian Trust Company is deemed to be the beneficial owner of 89,172,310, or approximately 5.9%, of AEGON's outstanding common shares at December 31, 2003, as a result of its serving as the investment manager of various institutional accounts. Both Capital Group International, Inc. and Capital Guardian Trust Company disclaimed beneficial ownership of the common shares in the Schedule 13G pursuant to Rule 13d-4 under the Securities Exchange Act of 1934.

## AUDITOR'S REPORT

### INTRODUCTION

We have audited the financial statements of AEGON N.V., The Hague, for the year 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### SCOPE

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2003, and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

**THE HAGUE, MARCH 11, 2004**  
**ERNST & YOUNG ACCOUNTANTS**

## ADDITIONAL INFORMATION

### INFORMATION BASED ON U.S. ACCOUNTING PRINCIPLES

The consolidated financial statements of AEGON N.V. have been prepared in accordance with Dutch accounting principles which differ in certain respects from those generally accepted in the United States (US GAAP). The following information is a summary of the effect on AEGON's shareholders' equity and net income of the application of US GAAP, which is included in further detail in the Form 20-F report filed with the Securities and Exchange Commission. The Form 20-F report is available on request, free of charge, and can also be retrieved from the EDGAR database of the SEC at [www.sec.gov](http://www.sec.gov) and via [www.aegon.com](http://www.aegon.com).

Amounts in EUR millions	2003	Shareholders' equity December 31, 2002	2003	2002 <sup>1</sup>	Net income 2001 <sup>1</sup>
Amounts in accordance with Dutch accounting principles	14,132	14,231	1,793	1,547	2,397
Adjustments for:					
Real estate	(817)	(804)	(33)	(48)	(61)
Bonds and private placements – valuation	3,824	3,411	–	–	–
– realized gains and (losses)	1,132	245	893	8	276
Deferred policy acquisition costs	(1,983)	(1,421)	(251)	(557)	(141)
Goodwill	2,959	3,372	(219)	(670)	(496)
Technical provisions	160	422	(109)	402	45
Realized gains and (losses) on shares and real estate including reversal of indirect return	–	–	(756)	(2,251)	(1,160)
Derivatives	(239)	(750)	90	32	(152)
Deferred taxation	(670)	(651)	(33)	(30)	44
Deferred taxation on US GAAP adjustments	(671)	(489)	(72)	205	344
Balance of other items	9	(12)	228	329	(410)
<b>AMOUNTS DETERMINED IN ACCORDANCE WITH US GAAP</b>	<b>17,836</b>	<b>17,554</b>			
Income before cumulative effect of accounting changes			1,531	(1,033)	686
Cumulative effect of adopting FAS 133 (derivatives), net of tax of EUR 30 million			–	–	(54)
Cumulative effect of adopting FAS 142 (goodwill)			–	(1,295)	–
<b>NET INCOME IN ACCORDANCE WITH US GAAP</b>			<b>1,531</b>	<b>(2,328)</b>	<b>632</b>
Other comprehensive income, net of tax:					
Foreign currency translation adjustments			(2,384)	(2,749)	690
Unrealized gains and (losses) on available for sale securities during the period			1,249	(673)	(907)
Reclassification adjustment for (gains) and losses included in net income			7	1,193	377
Cumulative effect of accounting change of adopting FAS 133			–	–	49
<b>COMPREHENSIVE INCOME IN ACCORDANCE WITH US GAAP</b>			<b>403</b>	<b>(4,557)</b>	<b>841</b>

<sup>1</sup>Reflects restatement of certain US GAAP information.

AEGON identified certain changes required to be made to figures presented in accordance with US GAAP for the years ended December 31, 2002, and December 31, 2001. US GAAP net income over 2002 decreased by EUR 98 million, US GAAP comprehensive income for 2002 was EUR 155 million lower and, for 2001 was EUR 297 million lower. None of the changes affected any income or balance sheet figures presented in accordance with Dutch accounting principles.

In 2003 major differences between amounts on Dutch accounting principles and those on US GAAP compared to the amounts of prior years are explained as follows:

Net income of EUR 1,531 million was reported for 2003 based on US GAAP, compared to a net loss of EUR 2,328 million for 2002.

Capital losses on shares and real estate realized on a US GAAP basis totaled EUR 125 million (including EUR 352 million 'other-than-temporary impairment' write downs in 2003 compared to an amount of EUR 1,057 million in 2002) compared to indirect income of EUR 631 million under Dutch accounting principles. Capital gains (losses) on shares and real estate are recognized when they are realized pursuant to US GAAP while the indirect income methodology is applied under Dutch accounting principles.

Capital gains and losses on bonds and private placements realized, less the amortization charge of deferred gains and losses, totaled EUR 893 million for the year ended December 31, 2003 (2002: EUR 8 million). Under Dutch accounting principles gains and losses are deferred and amortized to the income statement over future periods. Under US GAAP these gains and losses, together with the annual amortization charge, are reported in the income statement when they are realized.

Goodwill impairment charges are recorded on a US GAAP basis while goodwill is charged to equity on a Dutch accounting basis at the time of acquisition. The required annual goodwill impairment test under SFAS 142 was performed in the fourth quarter of 2003 and resulted in an additional goodwill impairment charge of EUR 219 million, mainly in the Transamerica non-insurance reporting unit (2002: EUR 1,965 million). This impairment charge was reported as a 2003 US GAAP operating expense.

The following is a summary of differences between Dutch accounting principles and US GAAP which have an impact on reported shareholders' equity or net income.

#### **REAL ESTATE**

Under Dutch accounting principles real estate is shown at market value, which is the selling-value under normal market circumstances. New property is valued at construction cost including interest during the construction period, or at purchase price. Unrealized and realized gains and losses on real estate investments as well as results, expenses and currency exchange rate differences from hedging transactions are recognized in the revaluation account, taking into account the related (deferred) taxes.

Under US GAAP real estate is carried at historical cost less accumulated depreciation and is adjusted for any impairment in value. Depreciation is provided over the estimated economic life of the property. Realized gains or losses and all other operating income and expenses are reported in the income statement.

The adjustment shown in the reconciliation in the shareholders' equity column represents the reduction from market value to the historical cost less depreciation.

The adjustment shown in the reconciliation in the net income column represents the annual depreciation charge. The differences in results on disposals arising from the difference in book value between Dutch accounting principles and US GAAP are shown in the line realized gains and losses on shares and real estate, as is the reversal of the indirect income.

#### **BONDS AND PRIVATE PLACEMENTS - VALUATION**

Under Dutch accounting principles bonds and private placements are shown at amortized cost less provisions for uncollectable amounts, representing the cash value at the balance sheet date of future interest and principal repayment components based on the effective interest rate on the date of acquisition.

Under US GAAP debt securities are classified in three categories and accounted for as follows:

- debt securities that the company has the intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost;
- debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at market value, with unrealized gains and losses included in earnings;
- debt securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at market value, with unrealized gains and losses reported in shareholders' equity.

AEGON has classified the vast majority of its debt securities as available-for-sale securities and the remainder as trading securities. Under US GAAP, when evidence indicates there is a decline in a debt security's value, which is other than temporary, the security is written down to fair value and the difference is charged to that year's earnings.

The adjustment shown in the reconciliation in the shareholders' equity column represents the difference between the amortized cost basis less write-downs for uncollectable amounts and the market value.

#### **BONDS AND PRIVATE PLACEMENTS - REALIZED GAINS AND LOSSES**

Under Dutch accounting principles realized gains and losses from transactions within the bonds and private placements portfolios, unless a loss is considered a default loss, are deferred and released to the income statements in annual installments over the estimated average remaining maturity term of the investments sold.

Under US GAAP realized gains and losses on sales of bonds and private placements are recorded in earnings in the period the sales occurred. Gains and losses, both realized and unrealized, on bonds and private placements classified as trading are included in net income.

The adjustment shown in the reconciliation in the shareholders' equity column represents the reclassification of the deferred results on the sale of bonds from liabilities to shareholders' equity.

The adjustment shown in the reconciliation in the net income column represents the difference between the release of the deferred results on a Dutch accounting principles basis and the realized results on a US GAAP basis.



## ADDITIONAL INFORMATION

### DEFERRED POLICY ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

Under Dutch accounting principles, policy acquisition costs, which are costs that are directly or indirectly related to the acquisition of new or renewal insurance contracts, are deferred to the extent that they are recoverable from future expense charges in the premiums or from expected gross profits, depending on the nature of the contract. Acquisition costs are also deferred for certain non-insurance investment type products related to 401(k) plans in the United States. Deferred policy acquisition costs (DPAC) are amortized over the life of the underlying contracts, which are periods not to exceed the premium-paying periods for fixed premium products (traditional life and fixed universal life) and for flexible premium insurance contracts and investment type contracts in proportion to the emergence of estimated gross profits.

For fixed premium products in all countries, the DPAC are tested at least annually by country unit and product line to assess the recoverability. The amount not recoverable is recognized as an expense in the income statement in the period of determination. In the United States and Canada, the DPAC on flexible premium products, including fixed and variable annuities, variable universal life and unit-linked contracts, are amortized at a constant rate based on the present value of the estimated gross profit amounts expected to be realized over the life of the policies. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted. A significant assumption related to estimated gross profits on variable annuities and life insurance products is the annual long-term net growth rate of the underlying assets. The reconsideration of assumptions may affect the original DPAC amortization schedule, referred to as DPAC unlocking. The difference between the original DPAC amortization schedule and the revised schedule, which is based upon actual gross profits earned to date and revised estimates of future gross profits, is recognized in the income statement as an expense or a benefit. In the Netherlands, the United Kingdom and Other Countries the impact of equity market movements on estimated gross profits on flexible premium products is covered by the yearly or, if appropriate, quarterly recoverability testing; a negative outcome is charged to the income statement in the period of determination. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted for future periods.

For fixed premium products, the accounting is the same under US GAAP as under Dutch accounting principles in all countries. For flexible premium products sold in the United States and Canada, the accounting under US GAAP is the same as under Dutch accounting principles. For flexible premium products sold in the Netherlands, the United Kingdom and Other Countries an unlocking adjustment is made using a revised DPAC amortization schedule based on actual gross profits earned to date and revised estimates of future gross profits. In recent years this unlocking adjustment has resulted in an additional amortization expense. Acquisition costs related to non-insurance investment type products related to 401(k) plans in the United States are expensed as incurred, as opposed to being deferred and amortized in accordance with Dutch accounting principles.

The adjustment in the reconciliation in the shareholders' equity column and the adjustment in the reconciliation in the net income column include the effect of unlocking for DPAC on flexible premium products in the United Kingdom and the difference in accounting for acquisition costs related to non-insurance investment type products related to 401(k) plans in the United States. Also included, in accordance with practice subsequent to the issuance of SFAS 115, is the adjustment of DPAC to reflect the change in amortization that would have been necessary if unrealized investment gains or losses related to debt securities had been realized. The effect on US GAAP equity related to SFAS 115 is EUR (1,421) million (2002: EUR (1,027) million).

### GOODWILL

Under Dutch accounting principles goodwill is charged to shareholders' equity in the year of acquisition.

Under US GAAP goodwill is capitalized and prior to January 1, 2002, goodwill was amortized over the expected periods to be benefited with adjustments for impairment, if necessary. For US GAAP accounting purposes goodwill was amortized over various periods, not exceeding 20 years for years prior to 2002. Goodwill was tested for impairment based on undiscounted cash flows.

Pursuant to the adoption of SFAS 142, 'Goodwill and Other Intangible Assets' as of January 1, 2002, goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually, or more frequently as a result of an event or change in circumstances that would indicate an impairment may be necessary. Impairment testing requires the determination of the fair value for each of the identified reporting units. The reporting units identified for AEGON based upon the SFAS 142 rules include: AEGON USA, AEGON Canada, AEGON The Netherlands, AEGON UK insurance companies and AEGON UK distribution companies, Other Countries and Transamerica non-insurance businesses. The fair value of the insurance operations is determined using valuation techniques consistent with market appraisals for insurance companies, a discounted cash flow model requiring assumptions as to a discount rate, the value of existing business and expectations with respect to future growth rates and term. For the Transamerica non-insurance operations, fair value was determined using a discounted cash flow analysis. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the determination of fair value involve significant judgements and estimates. The discount rates used are believed to represent market discount rates, which would be used to value businesses of similar size and nature.

The goodwill write-down in 2002 primarily reflects impairments for Transamerica non-insurance operations amounting to EUR 1,234 million and for AEGON USA insurance operations.

## TECHNICAL PROVISIONS

The provision for life insurance represents the present value of future benefits to be paid to or on behalf of policyholders and related expenses less the present value of future net premiums. The provision is calculated using actuarial methods that include assumptions such as estimates of premiums, mortality, investment performance, lapses, surrenders and expenses. These assumptions are initially based on best estimates of future experience at policy inception date, in some instances taking into account a margin for the risk of adverse deviation. The assumptions used are regularly reviewed, compared to actual experience and, if necessary, depending on the type of products, updated.

For products that have guaranteed benefits over the lifetime of the policy or at maturity, the premiums also include loadings for the expected cost of the guarantee. The pricing of the guarantee is based on assumptions for future investment performance, including reinvestment assumptions.

The provision for life insurance also comprises the provision for unexpired risks as well as the provision for claims outstanding. In case the premium-paying period is shorter than the lifetime of the policy, a provision for future expenses is set up to cover any estimated future expenses after the premium-paying period. Future costs in connection with benefit payments are also provided for.

In various countries products are sold that contain minimum guarantees. For these products the regular technical provision is recognized under technical provisions with investments for account of policyholders. The technical provision life insurance includes provisions for guaranteed minimum benefits related to contracts where the policyholder otherwise bears the investment risk.

In the United States, a common feature in variable annuities is a guaranteed minimum death benefit (GMDB). This means that when the insured dies, the beneficiaries receive either the account balance or the guaranteed amount, whichever is higher. The latter is calculated using the total deposits made by the contract holder, less any withdrawals and sometimes includes a roll-up or step-up feature thereby increasing the guarantee with interest or with increases in the account value, respectively.

The provision for life insurance includes a provision in connection with the guarantees issued. A cap and a floor for this provision is calculated using stochastic prospective methods (probability weighted calculation using multiple future scenarios) and current assumptions. Within the cap and floor corridor, the accrual method based on pricing assumptions with valuation interest less actual claims incurred is followed. Outside the cap and floor corridor, a surplus or shortfall of the provision will cause an extra charge or credit to the income statement.

In Canada, the variable annuity products sold are known as segregated funds. The provisions for the minimum guarantees on segregated funds are established consistent with the method described for the minimum guarantees on the variable annuity contracts sold in the United States.

In the Netherlands, Fundplan policies have a guaranteed return of 3% or 4% at maturity or upon the death of the insured if premium paid for a consecutive period of ten years is invested in the Mix Fund and/or the Fixed Income Fund. For this guaranteed return a provision is established based on stochastic modelling. The provision is developed applying the accrual method based on pricing assumptions less actual claims incurred. A corridor for the provision is determined regularly based on stochastic modelling methods. If the provisions develop outside the corridor, a charge or credit to the income statement is recorded. Minimum interest guarantees on group pension contracts in the Netherlands are given for nominal benefits, based on the 3% or 4% actuarial interest, after retirement of the employees. Due to the nature of the product, these guarantees have a long-term horizon of about 30 to 60 years. The provision is developed applying the accrual method based on pricing assumptions less actual deductions.

Provisions for fixed annuities, guaranteed investment contracts (GICs) and funding agreements (FAs) are equal to the accumulated contract balance.

Under US GAAP the technical provisions for traditional life insurance contracts are computed using the net level premium method with investment yields, mortality, lapses and expenses based on historical assumptions, and include a provision for adverse deviation. For universal life contracts and investment type contracts (annuities) the technical provisions are equal to the policyholder account balances at the balance sheet date. The technical provision in the United Kingdom is reduced to equal the contract holder balance. The technical provision for fixed annuities, GICs and FAs is the same as under Dutch accounting principles.

Also US GAAP technical provisions include the part of the change in value of the debt securities that must be allocated to policyholders based on the effects of the application of SFAS 115. The SFAS 115 effect on US GAAP equity is EUR (300) million (2002: EUR (348) million).

In addition, to the extent that the contract contains an embedded derivative as defined by US GAAP, the contract is unbundled and the derivative is marked to fair value with changes recognized in the income statement. This adjustment is included in the derivative line in the reconciliation.

## ADDITIONAL INFORMATION

### REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE

Realized and unrealized gains and losses on shares and real estate, under Dutch accounting principles, are recognized in the revaluation account, taking into account the related (deferred) taxes. In the income statement the structural total return on investments in shares and real estate is recognized. The total return includes the realized direct income (rents and dividends) of the reporting period and an amount of indirect income. The total return is calculated by determining the average of the total return yield over the last 30 years and multiplying this average yield by the average value of these investments over the last 7 years, adjusted for investment purchases and sales.

The indirect income from these investments is then calculated as the difference between the total return and the realized direct income. The indirect income is released from the revaluation account, if and as far as each of the individual balances for shares and real estate are positive.

Under US GAAP realized gains and losses on sales of shares and real estate are recorded in earnings in the period in which the sales occurred. Gains and losses, both realized and unrealized, on shares classified as trading are included in net income. For non-trading shares, unrealized gains and losses are reported as a component of comprehensive income. Impairments in value of shares deemed to be other than temporary are reported as a component of realized gains and losses. Real estate impairment is recognized as a realized loss in the income statement.

Realized and unrealized gains and losses by their nature can show large fluctuations. Included in realized gains and losses on shares and real estate for US GAAP purposes are EUR 273 million (2002: EUR 1,057 and 2001: EUR 36 million) impairment losses due to an other than temporary decline in market value, and the reversal of the indirect return of EUR 631 million (2002: EUR 758 million and 2001: EUR 723 million).

## **DERIVATIVES**

AEGON uses common derivative financial instruments such as swaps, options, futures and cross-currency derivatives to hedge its exposures related to investments, liabilities and borrowings. In general, under Dutch accounting principles the accounting treatment of derivatives mirrors the accounting treatment of the underlying financial instrument. In the balance sheet, the book values of the derivatives are recognized under the captions of the related underlying financial instrument. Foreign currency amounts are converted at the year-end exchange rates. Realized and unrealized results on derivative financial instruments are recognized in the same period and likewise as the results of the related investments, liabilities and debt.

US GAAP requires that all derivatives, including embedded derivatives, be recognized as either assets or liabilities in the balance sheet and be measured at fair value. Derivatives that do not qualify for hedge accounting treatment under US GAAP must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through income or recognized in other comprehensive income and amortized to income when the hedged transaction impacts income. Any portion of a derivative's change in fair value determined to be ineffective at offsetting the hedged risk will be immediately recognized in income.

An EUR 5 million loss on the total return swaps with Vereniging AEGON was included in 2003 net income in the line derivatives.

## **DEFERRED TAXATION**

Under Dutch accounting principles deferred taxation is calculated on the basis of the difference between book value and valuation for tax purposes of the appropriate assets and liabilities. The provision is equal to the discounted value of the future tax amounts. In the calculation discounted tax rates ranging from 0% to nominal rates are used, taking into account the estimated term to maturity of the related differences.

US GAAP requires an asset and liability approach for financial accounting and reporting for income taxes. Deferred tax assets and liabilities are measured using those enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled and such tax rates are not discounted. Deferred tax assets are reduced, if necessary, by a valuation allowance to reflect the fact that (part of) the assets are not expected to be realized.

## **BALANCE OF OTHER ITEMS**

Certain items are recorded differently or in different periods on the two bases of accounting.

**Comprehensive income** is the change in shareholders' equity during the year from transactions and other events and circumstances from non-owner sources. It includes all changes in shareholders' equity during the year except those resulting from investments by owners and distributions to owners.

## QUARTERLY RESULTS

Amounts in millions

2003 I	II	III	IV	USD Total		2003 I	II	III	IV	EUR Total
<b>NET INCOME</b>										
529	591	659	723	2,502	Life insurance	493	521	587	611	2,212
59	60	90	111	320	(including annuities)	55	53	80	95	283
16	32	18	3	69	Accident and health insurance	15	28	17	1	61
0	2	10	11	23	General insurance	0	2	9	9	20
(128)	(113)	(135)	(110)	(486)	Banking activities	(119)	(99)	(121)	(90)	(429)
476	572	642	738	2,428	Interest charges and other	444	505	572	626	2,147
(133)	(153)	(170)	(191)	(647)	Income before tax	(124)	(135)	(151)	(162)	(572)
78	109	49	11	247	Corporation tax	73	96	43	6	218
<b>421</b>	<b>528</b>	<b>521</b>	<b>558</b>	<b>2,028</b>	Transamerica Finance Corporation	<b>393</b>	<b>466</b>	<b>464</b>	<b>470</b>	<b>1,793</b>
<b>REVENUES</b>										
7,102	6,644	6,464	7,220	27,430	Life insurance	6,619	5,821	5,751	6,060	24,251
881	792	798	844	3,315	Accident and health	821	693	710	707	2,931
265	256	214	237	972	General insurance	247	224	190	198	859
101	103	99	98	401	Banking activities	94	91	88	81	354
2	1	7	28	38	Other activities	2	1	6	25	34
<b>8,351</b>	<b>7,796</b>	<b>7,582</b>	<b>8,427</b>	<b>32,156</b>	<b>TOTAL REVENUES</b>	<b>7,783</b>	<b>6,830</b>	<b>6,745</b>	<b>7,071</b>	<b>28,429</b>
(1,662)	7,724	2,429	6,053	14,544	Investment income for account of policyholders	(1,549)	7,035	2,157	5,215	12,858
7,787	6,790	5,084	4,620	24,281	Annuities, GICs and savings accounts	7,257	5,935	4,505	3,770	21,467
2,706	1,470	16	(1,609)	2,583	– Gross deposits	2,522	1,257	(6)	(1,489)	2,284
1,328	1,560	1,426	1,779	6,093	– Net deposits	1,238	1,376	1,269	1,504	5,387
14,732	15,549	15,854	17,849		Commissions and expenses	13,522	13,607	13,606	14,132	
2,826	2,910	2,838	3,002		Shareholders' equity	2,594	2,546	2,436	2,377	
<b>17,558</b>	<b>18,459</b>	<b>18,692</b>	<b>20,851</b>		Subordinated loans	<b>16,116</b>	<b>16,153</b>	<b>16,042</b>	<b>16,509</b>	
<b>FIGURES PER COMMON SHARE</b>										
0.27	0.34	0.33	0.36	1.30	Net income	0.25	0.30	0.30	0.30	1.15
8.45	8.91	9.00	10.22		Shareholders' equity	7.76	7.80	7.72	8.09	
<b>USD EXCHANGE RATE</b>										
1.0895	1.1427	1.1652	1.2630		At end of period					
1.0730	1.1050	1.1110	1.1311		Weighted average rate					

2002 I	II	III	IV	USD Total		2002 I	II	III	IV	EUR Total
<b>NET INCOME</b>										
					Life insurance					
737	130	534	316	1,717	(including annuities)	841	125	544	304	1,814
81	58	78	46	263	Accident and health insurance	93	62	79	44	278
15	16	21	7	59	General insurance	17	17	22	6	62
8	11	11	(22)	8	Banking activities	9	12	11	(24)	8
(101)	(66)	(82)	(47)	(296)	Interest charges and other	(115)	(71)	(82)	(45)	(313)
740	149	562	300	1,751	Income before tax	845	145	574	285	1,849
(224)	(30)	(154)	74	(334)	Corporation tax	(255)	(28)	(157)	87	(353)
24	26	13	(15)	48	Transamerica Finance Corporation	27	29	12	(17)	51
<b>540</b>	<b>145</b>	<b>421</b>	<b>359</b>	<b>1,465</b>	<b>NET INCOME</b>	<b>617</b>	<b>146</b>	<b>429</b>	<b>355</b>	<b>1,547</b>
<b>REVENUES</b>										
6,314	6,014	6,123	6,578	25,029	Life insurance	7,210	6,527	6,145	6,553	26,435
861	806	768	793	3,228	Accident and health	983	875	766	785	3,409
218	196	195	183	792	General insurance	249	212	195	181	837
82	88	98	126	394	Banking activities	93	97	99	127	416
20	(2)	(11)	37	44	Other activities	23	(3)	(12)	39	47
<b>7,495</b>	<b>7,102</b>	<b>7,173</b>	<b>7,717</b>	<b>29,487</b>	<b>TOTAL REVENUES</b>	<b>8,558</b>	<b>7,708</b>	<b>7,193</b>	<b>7,685</b>	<b>31,144</b>
859	(6,584)	(8,071)	2,885	(10,911)	Investment income for account of policyholders	981	(7,361)	(8,486)	3,342	(11,524)
7,611	8,101	7,097	7,304	30,113	Annuities, GICs and savings accounts	8,690	8,819	7,070	7,226	31,805
3,121	3,052	2,443	676	9,292	– Gross deposits	3,564	3,315	2,406	529	9,814
					– Net deposits					
1,095	1,289	1,151	1,400	4,935	Commissions and expenses	1,250	1,407	1,152	1,403	5,212
14,482	13,407	14,360	14,924		Shareholders' equity	16,600	13,647	14,564	14,231	
2,425	2,633	2,641	2,752		Subordinated loans	2,780	2,680	2,678	2,624	
<b>16,907</b>	<b>16,040</b>	<b>17,001</b>	<b>17,676</b>		<b>EQUITY AND SUBORDINATED LOANS</b>	<b>19,380</b>	<b>16,327</b>	<b>17,242</b>	<b>16,855</b>	
<b>FIGURES PER COMMON SHARE</b>										
0.38	0.10	0.28	0.22	0.98	Net income	0.43	0.10	0.29	0.22	1.04
9.97	9.15	8.35	8.64		Shareholders' equity	11.44	9.32	8.47	8.24	
<b>USD EXCHANGE RATE</b>										
0.8724	0.9824	0.9860	1.0487		At end of period					
0.8758	0.8974	0.9280	0.9468		Weighted average rate					

## CORPORATE AND SHAREHOLDER INFORMATION

### HEADQUARTERS

AEGON N.V.  
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P.O. Box 202  
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Telephone: +31 70 344 32 10  
Internet: <http://www.aegon.com>  
E-mail: [gca-ir@aegon.nl](mailto:gca-ir@aegon.nl)

### STOCK EXCHANGE LISTING

The common shares of AEGON N.V. are quoted on stock exchanges in:

- Amsterdam (AEGN.AS)
- Frankfurt (AEGN.F)
- London (AEGNq.L)
- New York, NYSE (AEG.N)
- Tokyo (AEGON.T)
- Zurich (AEGN.S)

AEGON N.V. stock options are quoted at the Euronext Amsterdam, the Chicago Board Options Exchange and the Philadelphia Stock Exchange.

### SHAREHOLDERS AND INVESTOR RELATIONS CONTACTS

#### THE NETHERLANDS

AEGON N.V.  
P.O. Box 202  
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The Netherlands

#### GROUP CORPORATE AFFAIRS AND INVESTOR RELATIONS

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Fax: +31 70 344 84 45  
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#### UNITED STATES OF AMERICA

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1111 North Charles Street  
Baltimore, Maryland 21201-5574

#### INVESTOR RELATIONS

Telephone: +1 410 576 45 77  
Fax: +1 410 347 86 85  
E-mail: [ir@aegonusa.com](mailto:ir@aegonusa.com)

### ANNUAL MEETING

The AEGON N.V. annual General Meeting of Shareholders will be held at AEGON headquarters, AEGONplein 50, The Hague, the Netherlands, on Thursday April 22, 2004, at 14.00 C.E.T.



## FINANCIAL CALENDAR

### KEY EVENTS 2003

January	15	ICA Ahold and AEGON end talks on joint venture
March	6	Release results year 2002
March	20	AEGON announces proposed changes to its corporate governance
April	16	AEGON N.V. issues 4½% EUR 1 billion five year Eurobonds
April	17	Annual General Meeting of Shareholders
May	6	Release results first three months 2003
May	6	AEGON-CNOOC life insurance company starts activities in China
May	6	Extraordinary General Meeting of Shareholders
May	9	AEGON concludes change in corporate governance
May	20	AEGON N.V. issues 4.75% USD 750 million ten year senior notes
May	20	AEGON N.V. issues USD 250 million two year floating rate senior notes
June	3	AEGON receives license for life insurance activities in Slovakia
August	5	AEGON announces to sell most of Transamerica Finance Corporation's commercial lending business to GE Commercial Finance
August	7	Release results first six months 2003
August	7	AEGON discloses its embedded value 2002
October	2	Sale of Transamerica Finance Corporation's real estate tax services and flood hazard companies to The First American Corporation concluded
October	29	AEGON opens life insurance operations in Slovakia
November	6	Release results first nine months 2003
November	26	CAM and AEGON announce to agree on partnership

### IMPORTANT DATES 2004

April	22	Annual General Meeting of Shareholders
April	23	Dividend record date
April	26	Ex-dividend date in the Netherlands; start of election period for cash or stock option final dividend 2003
April	21	Ex-dividend date in the USA
May	4	Calculation period for dividend value in shares (up to and including May 10)
May	12	Release results first three months 2004
May	18	Start payment of final dividend 2003
June	7	Release embedded value report
August	12	Release results first six months 2004
August	13	Interim dividend record date
September	24	Interim dividend payable
November	11	Release results first nine months 2004

## FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. Words such as 'believe', 'estimate', 'intend', 'may', 'expect', 'anticipate', 'predict', 'project', 'counting on', 'plan', '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 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;
- 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.