



# ANNUAL REPORT 2004

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In addition to the annual report, AEGON publishes the historical data booklet 1994-2004, 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](http://www.aegon.com)

A corporate responsibility report is available online at  
[www.aegon.com/top-1-7.html](http://www.aegon.com/top-1-7.html)

# AT A GLANCE

## AMERICAS

### USA

#### NUMBER OF EMPLOYEES

13,356 (of which 2,754 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 agents 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

673

#### MAIN OFFICE

Toronto

#### MAIN PRODUCT AREAS

Traditional, universal and term life insurance, 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)

## EUROPE

### THE NETHERLANDS

#### NUMBER OF EMPLOYEES

5,954 (of which 1,473 are agent-employees)

#### MAIN OFFICES

The Hague, Leeuwarden, Nieuwegein, Groningen

#### MAIN PRODUCT AREAS

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

#### MAJOR CUSTOMER SEGMENTS

Middle and upper income individuals, companies, institutions

#### 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

4,513 (of which 159 are agent-employees)

#### MAIN OFFICE

Edinburgh

#### MAIN PRODUCT AREAS

Individual and group life insurance, 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**  
767

**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)

**SLOVAKIA**  
**NUMBER OF EMPLOYEES**  
50

**MAIN OFFICE**  
Bratislava

**MAIN PRODUCT AREAS**  
Life and pension insurance

**MAJOR CUSTOMER SEGMENTS**  
Individuals

**DISTRIBUTION CHANNELS**  
Tied agents, pension advisors, brokers

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

**SPAIN<sup>1</sup>**  
**NUMBER OF EMPLOYEES**  
673

**MAIN OFFICE**  
Madrid

**MAIN PRODUCT AREAS**  
Life, general and health insurance

**MAJOR CUSTOMER SEGMENTS**  
Middle and upper income individuals, small and medium-sized companies

#### **DISTRIBUTION CHANNELS**

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

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

## ASIA

#### **TAIWAN**

**NUMBER OF EMPLOYEES**  
892 (of which 580 are agent-employees)

**MAIN OFFICE**  
Taipei

#### **MAIN PRODUCT AREAS**

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

#### **MAJOR CUSTOMER SEGMENTS**

Middle and upper income individuals, companies

#### **DISTRIBUTION CHANNELS**

Tied agents, brokers, banks, direct marketing, worksite marketing

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

#### **CHINA<sup>2</sup>**

**NUMBER OF EMPLOYEES**  
373 (of which 259 are agent-employees)

**MAIN OFFICE**  
Shanghai

#### **MAIN PRODUCT AREAS**

Life, accident and health insurance

**MAJOR CUSTOMER SEGMENTS**  
Middle income individuals

**DISTRIBUTION CHANNELS**  
Tied agents, banks, direct marketing/telemarketing, brokers

[www.aegon-cnooc.com](http://www.aegon-cnooc.com)



<sup>1</sup> December 30, 2004, AEGON N.V. announced the sale of its general insurance activities in Spain

<sup>2</sup> 50/50 joint venture by China National Offshore Oil Corporation and AEGON N.V.

AEGON N.V. IS ONE OF THE WORLD'S LEADING LISTED LIFE INSURANCE COMPANIES RANKED BY MARKET CAPITALIZATION AND ASSETS. AEGON'S HEAD OFFICE IS IN THE HAGUE, THE NETHERLANDS. AT THE END OF 2004, AEGON COMPANIES EMPLOYED ABOUT 27,000 PEOPLE WORLDWIDE.

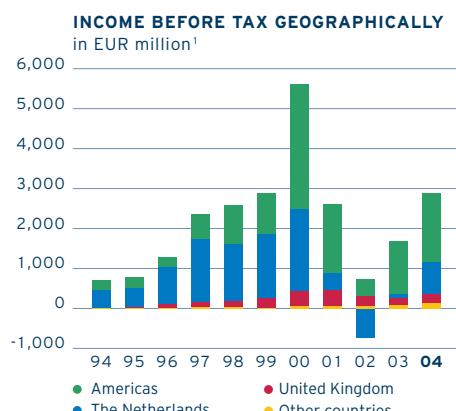
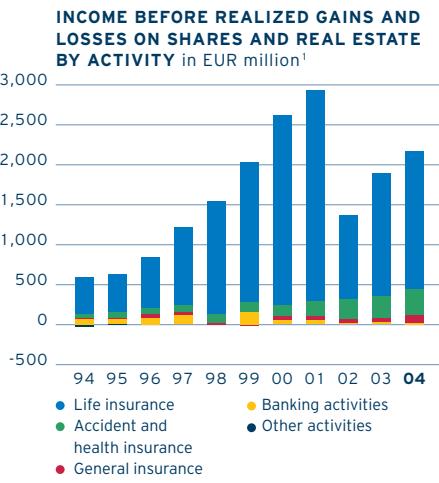
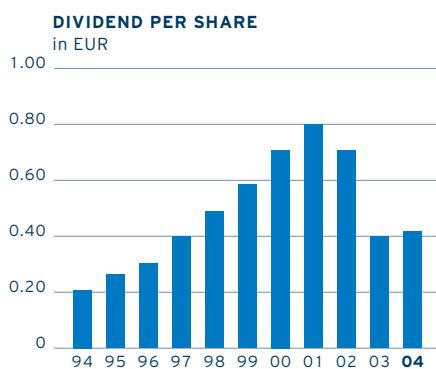
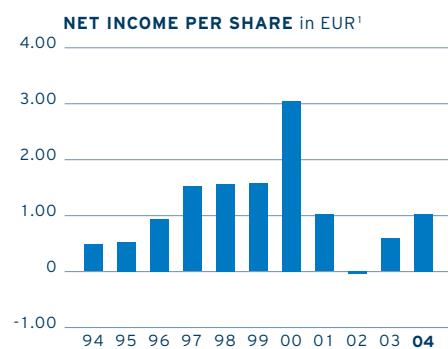
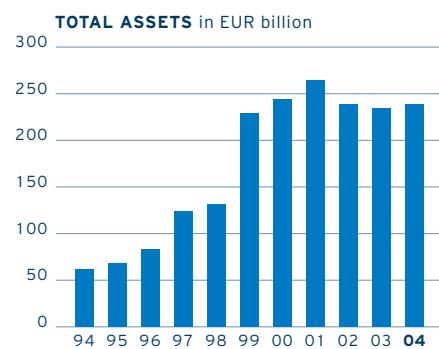
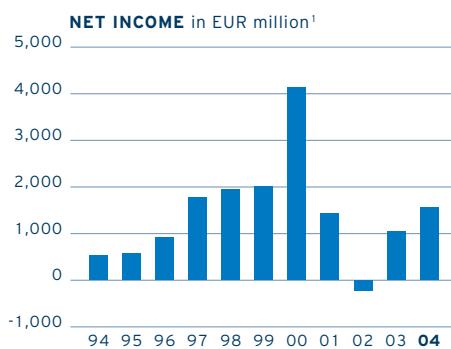
AEGON'S BUSINESSES FOCUS ON LIFE INSURANCE AND PENSIONS, SAVINGS AND INVESTMENT PRODUCTS. THE GROUP IS ALSO ACTIVE IN ACCIDENT AND SUPPLEMENTAL HEALTH INSURANCE AND GENERAL INSURANCE, AND HAS LIMITED BANKING ACTIVITIES.

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, HUNGARY, SLOVAKIA, SPAIN AND TAIWAN. AEGON IS ALSO ACTIVE IN CHINA.

AEGON ENCOURAGES PRODUCT INNOVATION AND FOSTERS AN ENTREPRENEURIAL SPIRIT WITHIN ITS BUSINESSES. NEW PRODUCTS AND SERVICES ARE DEVELOPED BY LOCAL BUSINESS UNITS, WITH A CONTINUOUS FOCUS ON COST CONTROL, USING A MULTI-BRAND, MULTI-CHANNEL DISTRIBUTION APPROACH TO MEET CUSTOMERS' NEEDS.

RESPECT, QUALITY, TRANSPARENCY AND TRUST CONSTITUTE AEGON'S CORE VALUES AS THE COMPANY CONTINUALLY STRIVES TO NOT ONLY MEET, BUT EXCEED THE EXPECTATIONS OF CUSTOMERS, SHAREHOLDERS, EMPLOYEES, BUSINESS PARTNERS AND OTHER STAKEHOLDERS. PURSUING ITS MISSION OF CREATING BETTER FINANCIAL FUTURES FOR ALL STAKEHOLDERS, AEGON WILL CONTINUE TO EXPLORE NEW OPPORTUNITIES FOR PROFITABLE GROWTH.

# AT A GLANCE



<sup>1</sup>The graphs have been adjusted for the changes in accounting principles implemented as of January 1, 2004

## FINANCIAL RELATIONS

AEGON values its 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.

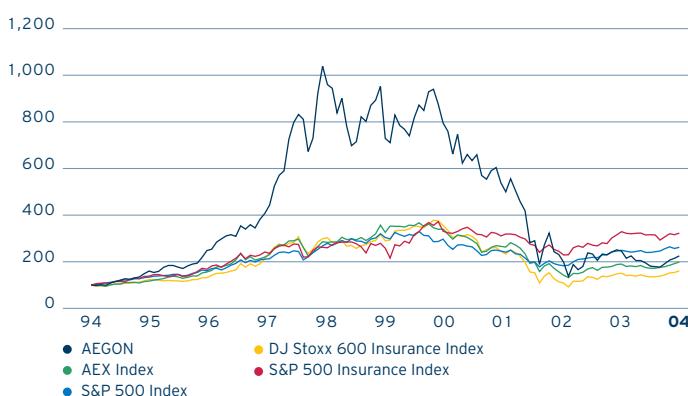
AEGON's Investor Relations program is aimed at ensuring efficient and effective access to the global capital markets. For this reason, AEGON's common shares are listed on the stock exchanges in Amsterdam, Frankfurt, London, New York, Tokyo and Zurich. The company's stock is included in several major equity indices. In addition, AEGON has a variety of debt instruments outstanding in various major currencies.

In order to obtain a fair valuation for its securities, AEGON is committed to ensuring that equity and fixed income investors

have an accurate understanding of the company's performance and prospects. To achieve this, AEGON's Investor Relations program 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 is focused on ensuring that both financial and non-financial information is disclosed accurately, completely, timely and in a consistent fashion.

A major change in the financial reporting of companies will take place in 2005 with the introduction of International Financial Reporting Standards (IFRS). AEGON is fully prepared for this transition and has held a number of presentations to educate the financial community on the relevant changes in the accounting standards. The first publication of IFRS results will

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



#### SHARE PRICE INFORMATION (IN EURO)

	2004	2003	2002	2001	2000
Price – high	<b>12.98</b>	13.47	29.23	42.37	46.44
Price – low	<b>8.24</b>	5.87	9.04	22.15	32.28
Price – year-end	<b>10.03</b>	11.73	11.79	29.23	42.37
Price/Earnings Ratio	<b>9.60</b>	11.30	11.35	17.27	28.06

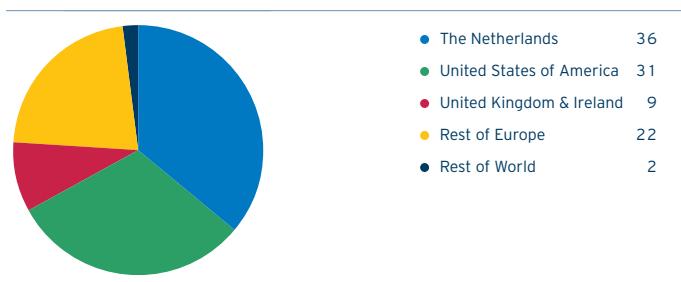
Source: Bloomberg, Datastream

#### SHARE PRICE INFORMATION (IN USD)

	2004	2003	2002	2001	2000
Price – high	<b>16.12</b>	14.80	26.03	39.96	47.23
Price – low	<b>10.41</b>	6.46	8.87	20.96	30.88
Price – year-end	<b>13.71</b>	14.80	12.37	25.74	39.85

Source: Bloomberg

#### SHAREHOLDER BASE AEGON N.V. COMMON SHARES percentage (estimated)



#### 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) 12/31/2004	1,553
Free float of common shares* 12/31/2004	89%
Average daily trading volume 2004	
all exchanges (million common shares)	9.8

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

Source: Bloomberg

take place on April 14, 2005, when AEGON will provide comparative key IFRS figures for 2004. Starting with the publications of its first quarter results 2005 on May 11, 2005, AEGON will report its results on an IFRS basis.

On May 5, 2004, the European life insurance industry took an important step towards improving the consistency and transparency of life insurance reporting through the launch of the European Embedded Value Principles. AEGON has supported this initiative and expects that, in all material aspects, the AEGON principles will be consistent with embedded value life insurance under the new rules.

In 2004, AEGON successfully issued junior perpetual capital securities to retail investors and completed a benchmark senior debt issue to institutional investors.

AEGON actively maintains contact with the financial community in many ways, including investor roadshows throughout the USA, Europe and Asia, webcasts, press releases and investor days, while ensuring equal access to information.

AEGON invites shareholders, bondholders and potential investors to learn more about AEGON. Dedicated Investor Relations staff is available to answer questions and is determined to maintain an open dialogue with the financial community.

#### INVESTOR RELATIONS

The Hague, The Netherlands: +31 (0)70 344 83 05  
 E-mail: gca-ir@aegon.com  
 Baltimore, USA: +1 410 576 45 77  
 E-mail: ir@aegonusa.com

## 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.

## STRATEGY

### COMMITMENT TO CORE BUSINESS

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

### DECENTRALIZED ORGANIZATION

AEGON has a multi-domestic and multi-brand approach, giving a high degree of autonomy to the management of the individual country and business units, encouraging entrepreneurial spirit and action.

### EMPHASIS ON PROFITABILITY

AEGON aims to achieve a 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. Divestment of non-core and structurally underperforming activities as well as disciplined expense management are key to achieving these objectives.

### MARKET POSITION

AEGON's objective is to achieve a leading position in chosen markets in order to achieve benefits of scale.

### INTERNATIONAL EXPANSION

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

## FROM THE BOARD

AEGON WAS SUCCESFULL IN PROFITABLY GROWING ITS BUSINESS IN BOTH EXISTING AND DEVELOPING MARKETS



# CHAIRMAN'S LETTER



DONALD J. SHEPARD  
CHAIRMAN OF THE EXECUTIVE BOARD

On behalf of the Executive Board, it is my pleasure to present AEGON's 2004 Annual Report. Throughout the preceding year, AEGON was successful in maintaining its focus on its core lines of business – life, pensions and asset accumulation products – and profitably growing its business in both existing and developing markets.

I am especially happy to report that all of AEGON's major country units contributed to the favorable results for 2004. The full-year proposed dividend further demonstrates our improved cash flows, AEGON's strong capital position and our confidence in our business.

Without question, our industry has undergone some dramatic changes during the past several years. Since we last reported to you, market and economic conditions have continued to improve the prospects for AEGON. Although challenges remain, we have been pleased by less volatile equity markets, indications of a gradual rise in interest rates in the US, and lower defaults in the bond market. These conditions have all contributed to a more favorable climate for our business. The increased regulatory environment facing the industry, however, will continue to pose significant challenges. At the same time, these circumstances provide AEGON an opportunity to reaffirm its commitment to sound and transparent business practices for the benefit of all of its stakeholders – our shareholders, bondholders, customers, business partners, and employees alike. In the end, it is trust, reliability and quality in the execution of our business that will help to ensure AEGON's continued competitiveness and growth as one of the world's leading life insurance providers.

At AEGON, we continue to see great opportunity for our industry. The need for wealth preservation and asset accumulation products will become increasingly in demand as aging populations look for more diverse pre and post-retirement

solutions. Further, taking into account the post-World War II generation ('baby boomers'), which represents the single greatest asset accumulation population pool in history, we see significant growth potential for our core lines of business.

It is our view that we can best claim a portion of this significant potential by continually focusing on what we know and do best, by staying close to our customers and through disciplined financial management.

Relying on a decentralized operating model, AEGON is well positioned to respond to the changes in the marketplace, as well as to the changing needs of its customers through innovative product development. Moreover, AEGON remains committed to seeking a leading position in chosen markets and to maintaining its status as a quality, cost-effective provider.

AEGON's broad-based multi-channel distribution network continues to be one of its most notable strengths. This network was further enhanced during 2004 with the implementation of AEGON's successful strategic partnership with Caja de Ahorros del Mediterráneo (CAM), providing access to one of Spain's leading bank distribution channels. In France, AEGON increased its stake from 20% to 35% in La Mondiale Participations in keeping with our aim of expanding our presence in the French life and pensions market. Additionally, we were pleased with our increasing participation in the fast growing Asian market during 2004. Having secured a license to conduct business in Beijing, China, in October, AEGON signed a national cooperation agreement with the Agricultural Bank of China, further enhancing AEGON's multi-distribution strategy in this promising market.

In AEGON's largest country unit, the United States, the important agency channel grew during 2004 and we continued to broaden our relationships with key financial institutions and distribution partners. In the Netherlands, our focus during 2004

has been devoted to restructuring operations to better serve the needs of our customers while realizing a broad range of efficiencies in our service and marketing operations. And in the United Kingdom, we believe that our partnerships in the important Independent Financial Advisory (IFA) sector are ensuring that AEGON is well positioned to maximize the opportunities of the changing distribution landscape currently underway.

We are grateful to the many dedicated staff of the AEGON companies and our distribution partners worldwide who daily help us to carry out our mission to provide better futures for individuals, families, businesses and communities. Thank you for your continued interest in AEGON, its businesses around the world and in our decisions, which are aimed at maximizing every opportunity for continued growth and profitability.



Donald J. Shepard  
Chairman of the Executive Board

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



DONALD J. SHEPARD



JOSEPH B.M. STREPPEL



JOHAN G. VAN DER WERF



ALEXANDER R. WYNAEENDTS

**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. On 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 sales manager. From 1987 to 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. Since April 2002 he has been a member of the Executive Board of AEGON N.V. and CEO of AEGON The Netherlands.

**ALEXANDER R. WYNAEENDTS (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 2003 he was appointed a member of the Executive Board of AEGON N.V.

# REPORT OF THE SUPERVISORY BOARD



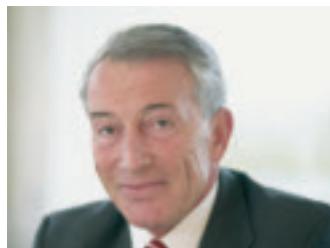
M. TABAKSBLAT



D.G. EUSTACE



I.W. BAILEY, II



R. DAHAN



O.J. OLÇAY



T. REMBE



W.F.C. STEVENS



K.J. STORM



P. VOSER



L.M. VAN WIJK

## ROLE OF THE SUPERVISORY BOARD

The duties of the Supervisory Board, which currently has ten non-executive members, consist of the supervision of the Executive Board's management and providing consultation and advice to the Executive Board. With the assistance of its four specialized committees, the Supervisory Board makes nominations to the Executive Board, deliberates and decides on compensation levels of Executive Board members and recommends terminations of the Executive Board when appropriate. The Supervisory Board also proposes to shareholders candidates for membership to its own body. Additionally, the members of the Board discuss quarterly results, accounting principles, dividends, AEGON's capital position, internal control procedures as well as risk management. Together with the Executive Board, the Supervisory Board regularly reviews AEGON's corporate strategy. The Supervisory Board held a total of eight meetings in 2004. Meetings were typically preceded or followed by meetings of the various committees.

## CORPORATE GOVERNANCE

During several Supervisory Board meetings, the Dutch Corporate Governance Code, which became effective on January 1, 2004, and the implications for AEGON's corporate governance were discussed.

During the annual General Meeting of Shareholders (AGM) held on April 22, 2004, the Supervisory Board discussed with the shareholders its views and intentions relating to corporate governance. The chapter on Corporate Governance in this annual report will be on the agenda of the AGM to be held on April 21, 2005 and at that time proposals will be made to amend the Articles of Incorporation that are intended to bring AEGON's corporate governance further in line with the best practice provisions of the Dutch Corporate Governance Code. This annual report provides a section on AEGON's corporate governance that describes the views and intentions of the Supervisory Board and the Executive Board in this regard.

## SUPERVISORY BOARD MEETINGS

In accordance with the Supervisory Board Rules, 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 2004. In December 2004, the Supervisory Board discussed the Executive Board's and its own composition and performance, in the absence of the Executive Board members.

# REPORT OF THE SUPERVISORY BOARD

The meetings, during which the Supervisory Board discussed the quarterly and annual results and the press releases, were also attended by the director of the Group Finance department. Representatives from Ernst & Young, AEGON's independent auditor, attended the discussion regarding the results for 2003. As usual, special meetings of the Supervisory Board were dedicated to AEGON's budget for 2005 and to the Group Management Overview.

In June, a meeting of the Board was devoted to AEGON's business strategy. This meeting was preceded and prepared by the Strategy Committee. The meeting was hosted by AEGON UK and the occasion proved a good opportunity for AEGON UK's management and board to exchange a broad range of information about AEGON in general and AEGON UK in particular. The Supervisory Board intends to pursue further opportunities to engage AEGON's international senior management and the board members of the various country units.

Included among the many topics discussed during Supervisory Board meetings in 2004 were embedded value, dividend policy, capital management and risk management.

With the support of the Board, AEGON's 2003 Embedded Value Report was disclosed on June 7, 2004. Recognizing the increasing importance of effective risk management, the Audit Committee discussed this issue and reviewed the measures that AEGON has implemented. The conversion to International Financial Reporting Standards (IFRS) was also discussed as well as the process initiated by AEGON to ensure compliance beginning with the 2005 financial year.

Attention was also devoted to partnerships and divestitures. The Supervisory Board approved an increase in AEGON's participation in La Mondiale Participations from 20% to 35%; the establishment of a pension fund management company in Slovakia; the launch of a greenfield operation in the Czech Republic and the expansion of the activities of AEGON USA's Direct Marketing Services to other countries. The Supervisory Board also approved the divestiture of AEGON Spain's non-life

business as well as the sale of most of the remaining non-core businesses of Transamerica Finance Corporation (the maritime container business and the European trailer business).

Topics of particular interest to the Supervisory Board included equity lease in the Netherlands as well as regulatory and other legal issues in the USA and in Europe. Following the adoption of the United States Sarbanes-Oxley Act (SOX), and the Dutch Corporate Governance Code, the Board amended the Supervisory Board Rules, the Audit Committee Charter, the Pre-approval Policy relating to the services of AEGON's independent auditor, Ernst & Young, and the Rules on Inside Information. The Supervisory Board also adopted a Financial Control Complaints Procedure, which establishes a whistleblower arrangement according to SOX, in addition to the whistleblower procedure in the Code of Conduct, as well as the Executive Board Rules.

## **SUPERVISORY BOARD COMMITTEES**

The Supervisory Board relies on four committees to prepare specific issues for decision-making by the Board. The members of the Committees are selected from the Supervisory Board. In accordance with its Charter, each Committee reports its findings to the Supervisory Board during a subsequent Supervisory Board meeting.

The Audit Committee held six meetings during 2004, which were also attended by members of the Executive Board as well as the Group Finance Director, the Group Internal Auditor and representatives of Ernst & Young. The discussions in the Audit Committee were dominated by its permanent agenda: the quarterly results, the annual accounts and the auditing of those by Ernst & Young; the accounting principles; the financial reports as filed with the Securities and Exchange Commission (SEC), AEGON's Capital Plan, in addition to reports on currency exposure, internal control systems as well as Risk Management and Ernst & Young's independence and fees. The Committee advised the Supervisory Board to recommend to the

shareholders that Ernst & Young be reappointed as independent auditor for the financial year 2004.

The Committee also discussed the consequences of SOX and the Dutch Corporate Governance Code, as well as the role of the independent auditor. The Committee confirmed that Mr. Eustace and Mr. Voser qualify as financial experts within the meaning of the relevant provisions of SOX and the Dutch Corporate Governance Code. In accordance with legal requirements, the Committee approved and recommended to the Supervisory Board the adoption of amendments to the Audit Committee Charter and the Pre-approval Policy. Among other things, the Charter states that the Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor and that the company shall provide appropriate funding, as determined by the Audit Committee, for the payment of compensation to the independent auditors and to any advisor employed by the Audit Committee. Furthermore, it was determined that the Committee shall establish procedures for the receipt and retention of complaints relating to accounting and internal control issues. The Committee also approved the Financial Control Complaints Procedure. Two meetings, in March and September, were devoted to AEGON's filings with the SEC, the annual report (Form 20-F) and the results for the first six months (Form 6-K).

Each quarter, the Committee was updated on the activities of the Group internal auditor and on AEGON's worldwide compliance with SOX as well as on general compliance issues. The Committee also engaged in a discussion of AEGON's Risk Management Report, as presented by the Group Risk Manager, and subsequently reported on this to the Supervisory Board.

The Strategy Committee held two meetings, which were also attended by the Executive Board members. The purpose of this Committee is to review the major features of AEGON's business strategy, in addition to considering alternative strategies and the consideration of material aspects relating to the implementation of the strategy. The Committee discussed AEGON's business strategy and prepared the agenda for the meeting of the Supervisory Board held in Edinburgh in June 2004.

The Nominating Committee held three meetings in 2004. These meetings were also attended by the Executive Board's chairman. The Committee discussed the composition of the Supervisory Board and its Committees and existing and forthcoming vacancies. In addition, introduction programs for new members were planned and a retirement schedule for members of the Executive Board was prepared.

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 members of the Executive Board and of the remuneration of the members of the Supervisory Board. The Committee makes its recommendations to the Supervisory Board. The Committee held one meeting in 2004, attended also by the Executive Board's chairman, during which the implementation of the Remuneration Policy 2004-2006 for the Executive Board as adopted by the shareholders during the AGM on April 22, 2004, was discussed.

#### **PRINCIPAL POINTS OF THE REMUNERATION REPORT**

The Compensation Committee has reported on its activities in 2004. Please refer to page 14 for the full text of this report as well as of the Remuneration Policy and to page 119 and 120 for financial details. The Short Term and Long Term Incentive plans were adopted by the Supervisory Board in line with the company's current Remuneration Policy. The base salaries of the members of the Executive Board and the remuneration of the Supervisory Board members were not changed in 2004.

#### **SUPERVISORY BOARD COMPOSITION**

In 2004, Mr. de Ruiter reached the retirement age of 70 years and stepped down at the end of the AGM on April 22, 2004. Mr. De Wit, whose four-year term of office ended in 2004, served as a member of the Board for a total of 14 years. In accordance with the Dutch Corporate Governance Code, Mr. De Wit stepped down as a member of the Supervisory Board at the end of that same AGM. The members of the Supervisory Board extended their gratitude to Messrs. De Ruiter and De Wit for their long and distinguished service to the company.

The four-year terms of office of both Mrs. Rembe and Mr. Olcay also ended in 2004. The Supervisory Board nominated Mrs. Rembe and Mr. Olcay for reappointment and they were subsequently reappointed during the AGM in 2004. In the same meeting shareholders appointed Messrs. Dahan, Bailey and Voser as members of the Board.

In 2005, the four-year terms of office of Messrs. Eustace, Stevens and Tabaksblat will expire. Messrs. Eustace and Stevens are eligible for reappointment and the Supervisory Board has decided to nominate them for reappointment for another term. In compliance with the Dutch Corporate Governance Code, Mr. Tabaksblat is not eligible for reappointment and as such will step down at the end of the AGM to be held on April 21, 2005. The Supervisory Board has appointed Mr. Eustace to succeed Mr. Tabaksblat as chairman, subject to his reappointment by shareholders during the AGM on that same date. Mr. Olcay will have served the Board for 12 years in 2005 (the maximum term according to the Dutch Corporate Governance Code). The Supervisory Board, however, has asked Mr. Olcay to remain on the Board given his extensive experience and due to the relatively large number of recent changes in the composition

# REPORT OF THE SUPERVISORY BOARD

of the Board as a result of retirements. Mr. Olcay has agreed to continue his service on the Board for the duration of his current term, which expires in 2008.

In order to fill the vacancies, the Supervisory Board has on the advice of the Nominating Committee decided to nominate Mr. Shemaya Levy for appointment by the AGM. Details of Mr. Levy will be provided together with the agenda for the AGM on April 21, 2005.

## EXECUTIVE BOARD COMPOSITION

In compliance with the Dutch Corporate Governance Code, the members of the Executive Board will henceforth be appointed for a term of four years, subject to possible reappointments by the AGM. According to the retirement schedule (which has been posted on AEGON's corporate website) the term for Messrs. Shepard and Streppel will end in 2005. The Supervisory Board has decided to nominate them for reappointment for a four-year term.

## ANNUAL ACCOUNTS AND DIVIDEND

This annual report includes the annual accounts for 2004, as deliberated and proposed by the Audit Committee, and subsequently submitted by the Executive Board. The Supervisory Board recommends that shareholders adopt these accounts. A total dividend for 2004 of EUR 0.42 per common share is proposed. Since an interim dividend payment of EUR 0.21 per common share was made in September 2004, this entails a proposed final dividend payment of EUR 0.21 per common share.

## ACKNOWLEDGEMENT

The members of the Supervisory Board wish to commend the Executive Board and all members of the worldwide AEGON community for their strong commitment to growing AEGON's business. The Board wishes to extend its appreciation for the dedication and professionalism they continuously demonstrate in responding to ever-changing market conditions and an increasingly challenging regulatory environment.

The Hague, March 2, 2005  
On behalf of the Supervisory Board,  
Morris Tabaksblat, chairman

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

**M. Tabaksblat** chairman (1937, 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 and he will step down at the end of the AGM to be held on April 21, 2005. He is also chairman of the Supervisory Board of TPG N.V. and a member of the International Advisory Board of Citigroup International (USA) and Renault Nissan (France/Japan). He is currently the chairman of both the Nominating Committee and the Strategy Committee.

**D.G. Eustace** vice-chairman (1936, British nationality) is chairman of Smith & Nephew plc (London, UK) and a retired vice-chairman of Royal Philips Electronics. He was appointed in 1997 and his current term will end in 2005. He is eligible for reappointment and is willing to remain on the Supervisory Board. Upon his reappointment in 2005, he will succeed Mr. Tabaksblat as chairman of the Supervisory Board. He is also a member of the Supervisory Boards of Royal KPN N.V. and Hagemeyer N.V. He is currently chairman of the Audit Committee. Upon becoming chairman of the Supervisory Board he will step down from the Audit Committee.

**I.W. Bailey, II** (1941, American nationality) is a senior advisor to Chrysalis Ventures. He is a retired chairman and CEO of Providian Corp., a former managing director of Chrysalis Ventures, and a former chairman of the Board of Directors of AEGON USA Inc. He was appointed in 2004 and his current term will end in 2008. He is also a member of the Board of Directors of Computer Sciences Corp., Hospira Inc., as well as of the National Association of Small Business Investment Companies. He is currently a member of the Strategy Committee.

**R. Dahan** (1941, Dutch nationality and permanent US resident) is a retired executive vice-president and director of Exxon Corporation. He was appointed in 2004 and his current term will end in 2008. He is also chairman of the Supervisory Board of Royal Ahold N.V., a member of the Supervisory Boards of TPG N.V. and VNU N.V. and a member of the International Advisory Boards of CVC Capital Partners and of the Guggenheim Group. He is currently chairman of the Compensation Committee and a member of the Nominating 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 2008. 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 both the Nominating Committee and the Strategy Committee.

**T. Rembe** (1936, American nationality) is a retired partner/senior counsel of Pillsbury Winthrop LLP (San Francisco, USA). She was appointed in 2000 and her current term will end in 2008. 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 eligible for reappointment and is willing to remain on the Supervisory Board. He is chairman of the Supervisory Board of NIB Capital N.V. and a member of the Supervisory Boards of N.V. Luchthaven Schiphol, TBI Holdings B.V., AZL N.V., Goedland N.V. and Ermengildo Zegna International N.V. He is currently a member of both 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 chairman of the Supervisory Boards of N.V. Royal Wessanen, Laurus N.V. and KLM Royal Dutch Airlines N.V. and a member of the Supervisory Board of Pon Holdings B.V. He is also a member of the Board of Directors of InBev S.A. (Leuven, Belgium) and Baxter International Inc. (USA). He is currently a member of the Strategy Committee.

**P. Voser** (1958, Swiss nationality) is CFO of Royal Dutch/Shell Group of Companies. Until 2004 he was group CFO and a member of the Group Executive Committee of ABB (Asea Brown Boveri) Ltd. He was appointed in 2004 and his current term will end in 2008. He is currently a member of the Audit Committee.

**L.M. van Wijk** (1946, Dutch nationality) is president and CEO of KLM Royal Dutch Airlines N.V. and vice-chairman of Air France-KLM S.A. He was appointed in 2003 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 a member of the Board of Directors of Northwest Airlines. He is currently a member of the Compensation Committee.

## SUPERVISORY BOARD COMMITTEES

### AUDIT COMMITTEE

Dudley G. Eustace, chairman  
Toni Rembe, member  
Willem F.C. Stevens, member  
Peter R. Voser, member

### NOMINATING COMMITTEE

Morris Tabaksblat, chairman  
René Dahan, member  
O. John Olcay, member

### STRATEGY COMMITTEE

Morris Tabaksblat, chairman  
Irving W. Bailey, II member  
O. John Olcay, member  
Kees J. Storm, member

### COMPENSATION COMMITTEE

René Dahan, chairman  
Willem F.C. Stevens, member  
Leo M. van Wijk, member

# REMUNERATION POLICY AND REPORT

The Supervisory Board relies on four committees to prepare specific issues for decision making by the Board. One of these committees is the Compensation Committee, responsible for the design, development, implementation and review of the Remuneration Policy that outlines the terms and conditions of employment of the members of the Executive Board and of the remuneration of the members of the Supervisory Board. The Committee makes its recommendations to the Supervisory Board.

This chapter sets out the Remuneration Policy 2004-2006 and the remuneration of the members of the Executive Board and the members of the Supervisory Board for the year ended December 31, 2004.

## REMUNERATION POLICY

### SUPERVISORY BOARD REMUNERATION

The remuneration of the members of the Supervisory Board is based on a base compensation and a compensation relating to committee meetings. The members of the Supervisory Board do not receive any performance or equity-related compensation and do not accrue any pension rights with AEGON. The compensation of members of the Supervisory Board is reviewed every three years. Any change in the compensation will be submitted to the shareholders for adoption.

### EXECUTIVE BOARD REMUNERATION

#### OBJECTIVE

The Remuneration Policy for the Executive Board is aimed at creating a reward structure that will allow the company to attract and retain qualified and expert executives, as well as at providing those executives with a well balanced and incentive based compensation.

#### POLICY TERM

The annual General Meeting of Shareholders (AGM) adopted this Remuneration Policy on April 22, 2004. The Remuneration Policy took effect on January 1, 2004, for a three-year term. Any material changes in this Remuneration Policy will be submitted to the AGM for adoption.

#### TERM IN OFFICE

The Supervisory Board has determined that, as from January 1, 2005, the term in office for new members of the Executive Board

will be four years. Every appointment would be for the full term; however, members may leave before the end of their term due to reaching the age of retirement. On expiry, the Executive Board member may be reappointed for successive periods of four years.

#### BASE SALARIES

Base salary levels are based on the requirements and responsibilities of an Executive Board position. The Compensation Committee will ensure that base salary levels are realistic and competitive, taking into account individual roles and responsibilities of the Board members and considering benchmark information provided by independent external advisors. 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.

#### SHORT-TERM INCENTIVE PLAN

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

The plan determines that a STI 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 corporate VNB will apply; for Messrs. Van der Werf and Wynaedts, 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 realized gains and losses on shares and real estate will determine the level of the bonus payout. The income before realized gains and losses on shares and real estate target will be calculated based on a rolling, three-year average, increased by 2.5% to reflect inflation. Bonus payout for Messrs. Shepard and Streppel solely depends on AEGON's income before realized gains and losses on shares and real estate. For Messrs. Van der Werf and Wynaedts the bonus is based on the income before realized gains and losses on shares and real estate of the country unit(s) under their responsibility (60%) and on AEGON's income before realized gains and losses on shares and real estate (40%).

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 Wynaedts', their achievable bonuses are higher, reflecting their role as value drivers for AEGON.

#### 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%
Wynaedts	80%	125%

Annually, the Compensation Committee will review the agreed parameters to ensure that they continue to provide the best reference. Independent external advisors, Tillinghast and Ernst & Young, will provide and sign off all relevant STI data.

Additionally, effective from his appointment as chairman per April 18, 2002, Mr. Shepard is entitled to a STI equal to 0.1% of the net income of AEGON in the plan year.

#### LONG-TERM INCENTIVE PLAN

Long-term incentive (LTI) bonuses aim to reward Executive Board members when the company achieves previously determined objectives. The LTI bonus relates to their base salary and the value forms a combination of performance options and performance shares. At the beginning of every plan term, the LTI bonus value (amount) is determined and the corresponding number of options and shares is granted. Vesting of those rights is conditional upon the attainment of the agreed performance.

In that regard, the attainment will be determined by measuring AEGON's Total Shareholders Return (TSR) performance against that of a select peer group. This group comprises companies that are comparable in type of business, size and geographical presence, and that are generally recognized as the most appropriate reference group. The group consists of Allianz, Aviva, AXA, Fortis, Generali, ING, Jefferson-Pilot, John Hancock Life Insurance, Lincoln National, Nationwide FS Inc. and Prudential PLC.

The plan subsequently defines a target performance zone. Performance relative to that zone will determine which portion of the performance grant will vest at which performance level. Should AEGON rank at positions twelve through nine, the grant will not vest. Once AEGON achieves position eight in this zone, 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 BONUS LEVELS AS FROM JANUARY 1, 2004

	Target (% of base salary)
Shepard	95%
Streppel	60%
Van der Werf	60%
Wynaedts	60%

The Compensation 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; should those parameters no longer provide the appropriate reference, the Committee may decide to amend them. The independent external advisor, Towers Perrin, will provide and sign off all relevant LTI data.

#### PENSION

The pension arrangements aim at creating a reliable retirement provision for Executive Board members that conforms to market practice.

#### SEVERANCE PAYMENT ARRANGEMENTS

In the employment contracts with the current Executive Board members, the following specific severance payment arrangements regulate their entitlements in the event AEGON terminates their membership on the Executive Board.

Termination of employment of Mr. Shepard by AEGON other than for urgent cause, death, disability, voluntary resignation or retirement, shall entitle Mr. Shepard to three years' base salary. In addition, he shall be entitled to receive an amount equal to the aggregate short-term incentive compensation he received during the three years prior to the termination.

In such a case, the other Executive Board members have no specific financial arrangement.

In the event of termination of employment by AEGON in connection with a merger, takeover or fundamental changes of policy and related organizational amendments, or by Mr. Shepard in the event his responsibilities or position are diminished by such circumstances, AEGON will pay Mr. Shepard compensation in the amount of three years' base salary. Furthermore, he shall be entitled to receive an amount equal to the aggregate short-term incentive compensation he received during the three years prior to the termination and such severance payments shall be taken into account in determining the amounts payable to Mr. Shepard under his AEGON USA Supplemental Executive Retirement Plan and three additional years of service will be credited for the purpose of calculating his benefit thereunder. Mr. Streppel would be entitled to compensation according to the 'Zwartkruis formula', which means that the severance payment would be calculated on the basis of and depending on age, years of service, functional level and the probability of finding an equivalent position.

Messrs. Van der Werf and Wynaedts would be entitled to three years' fixed salary, only in case of termination in connection with a merger or takeover.

The Supervisory Board has determined that as from January 1, 2005, employment contracts for new members of the Executive Board would contain a termination arrangement in compliance with the Dutch Corporate Governance Code.

# REMUNERATION POLICY AND REPORT

## REMUNERATION REPORT 2004

### SUPERVISORY BOARD REMUNERATION

Remuneration of the Supervisory Board members was not changed in 2004.

For an overview of the remuneration received by the members of the Supervisory Board in 2004, please refer to page 119.

### EXECUTIVE BOARD REMUNERATION

#### POLICY

During the year 2004 no material changes to the policy, as referred to in the Dutch Corporate Governance Code, were implemented.

#### TERM IN OFFICE

The Supervisory Board will propose to the AGM on April 21, 2005 to (re)appoint Messrs. Shepard and Streppel for a four-year period starting in 2005.

#### BASE SALARIES

The base salaries of the Executive Board members were not changed on January 1, 2004, save the adaptation in accordance with the general salary rounds applicable to AEGON employees in the Netherlands, as stipulated in the employment contracts with the Dutch Executive Board members.

For an overview of the base salaries received by the Executive Board members in 2004, please refer to page 119.

#### SHORT-TERM INCENTIVES

##### 2003 PLAN, GRANTED IN 2004

In accordance with the STI plan 2003, the bonuses for the year 2003 were paid in 2004. Through this plan Mr. Shepard could earn USD 50,000 per percentage point increase in the preceding year earnings per share and the other members EUR 32,432 per percentage point increase in the preceding year earnings per share over the rate of European inflation. All bonuses have a maximum ceiling of 150% of the relevant year's salary.

All the members of the Executive Board have opted for payment of half of the cash value of their STI bonus into AEGON N.V. common shares, which shares are restricted (non-transferable) for a period of three years. 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 will be calculated through performance based matching, on the basis of an earnings per share (EPS) growth over inflation in the preceding three years, i.e. 2004, 2005 and 2006, according to the following table.

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

In addition, Mr. Shepard received a STI equal to 0.1% of the net income of AEGON in 2003, amounting to EUR 1,793,000.

Please refer to page 119 for an overview of the STI bonuses for the year 2003.

##### 2004 PLAN, TO BE PAID IN 2005

The STI 2004 bonuses will be paid in 2005, after adoption of the annual accounts for 2004 by shareholders during the AGM on April 21, 2005.

The STI bonus related to AEGON's net income over the financial year 2004 for Mr. Shepard, will be paid in 2005, provided shareholders adopt the annual accounts for 2004.

#### LONG-TERM INCENTIVES

##### 2003 PLAN, GRANTED IN 2004

Under the 2003 LTI plan, the Executive Board members were eligible to receive a predetermined number of Stock Appreciation Rights (SARs), subject to three criteria:

- Comparison of AEGON with 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.
- Should the AEGON share price performance achieve a top three position, each Executive Board member would receive 200,000 SARs. Should this share price performance finish in the middle group (of four companies), each Executive Board member would earn 100,000 SARs. Should the share price performance rank in the bottom group (three companies), 50,000 SARs would be granted.
- In case earnings per share did not increase, no SARs would be granted.

At the end of the plan term it was determined that the 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 has received 50,000 SARs in 2004.

Please refer to page 120 for the exercise price and the duration of these SARs.

##### 2004 PLAN, GRANTED IN DECEMBER 2004

In accordance with the 2004 LTI plan, non-vested (conditional) AEGON common shares and options were granted to each of the Executive Board members. Vesting of those rights is conditional upon the attainment of the agreed performance.

Please refer to page 119 for an overview of the LTI grants for the year 2004.

## 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

## *What do you see as the opportunities for AEGON in today's market?*

The business of life insurance and providing asset accumulation products continues to be a great business given the increasing trend of governments to shift responsibility for financial protection to the private sector. These days, people are living longer and this is a trend that is expected to continue. As a result,

the products and services we offer will have greater appeal and demand. There will also be a need for an even broader range of products to ensure that customers have the resources they require over time, including pre- and post-retirement asset accumulation products, as well as a wider array of wealth preservation products. There is an unprecedented amount of retirement savings moving into the payout phase and life insurers are particularly well equipped to offer disinvestment products that address the specific needs involved. The opportunity is great when considering the needs of the post-World War II ('baby boomers') generation. As I indicated in my Chairman's Letter, this segment represents the greatest asset accumulation population in history. Together with the opportunities in the middle-income market, where there remains a largely unaddressed need for more adequate retirement and life insurance provisions, the long-term growth prospects are very favorable. In order for AEGON to claim a portion of this significant potential, we must remain focused on our core lines of business. At the same time, our business units need to be agile in identifying and developing products that are responsive to the need and also adaptable to changing circumstances, and I might add, clear and easy to understand by our customers.

## *What distinguishes AEGON among its peers?*

In any discussion of competitive advantage, I believe you have to begin with the people who are the backbone of the company, those responsible for selling, managing, servicing and distributing AEGON's products. This is what ultimately distinguishes AEGON. The decentralized operating model that is

so much a part of AEGON's culture is a real advantage in terms of making sure that we stay close to the local situations where we conduct our business, and even more importantly, close to our customers. Whether in Cedar Rapids, Iowa, The Hague, Edinburgh, Madrid, Budapest or Taipei, AEGON is committed to being responsive to the evolving needs of our customers and adaptable to the economic and market circumstances where we operate. A key to AEGON's success is its broad-based, multi-distribution channel. In many cases, the distribution partnerships that we rely on have been in place for twenty years or more. It's impossible to overstate the importance of these relationships as we face new challenges, develop new products and look for the most efficient, cost-effective way to get them into the market.

Finally, I believe AEGON is distinguished for its clear and consistent focus on what we know and do best – life insurance, pensions, and associated asset accumulation products. During a time of change and economic volatility on a global scale, a company must be disciplined and not allow itself to be distracted from its area of expertise. At AEGON, we believe we have maintained our focus and are well-positioned to pursue our ongoing strategy of profitable and sustainable growth in our major and developing markets.

## *What is your assessment of the current regulatory environment for the insurance industry?*

Clearly, insurance is one of the more regulated sectors of the financial services industry. This is not necessarily a bad thing. At AEGON, we believe that the insurance industry should be completely transparent in its business practices. The regulatory environment for our business is intense and the related costs to ensure compliance are high – both monetarily and in terms of management's time and resources. Inasmuch as management is diligent in pursuing the highest standards of good corporate governance and sound business practices, there will hopefully be less cause for extreme measures on the part of authorities. To that end, our industry must be proactive in engaging the many constituencies that have an interest and in some way affect our business – regulators, analysts, investors, advisors, the media and of course, our customers. The industry and regulators can better work together to eliminate redundancies that only add costs and restrict the affordability and timeliness of services and products for our customers. Indeed, there is a great deal at stake.

However, both the regulators and industry managers share the common goal of protecting the assets and trust of our customers and shareholders. Simply put, we are in the business of making promises – for ten, 20, 30 years or more. Ultimately, we have to do everything we can to ensure that we are there to fulfill those promises whenever the time comes.

*What is AEGON's approach to ensuring professional growth of its employees and cultivating the next generation of leaders?*

One of AEGON's consistent strengths has been and continues to be its ability to attract quality individuals who bring a wide range of talents, interests and abilities to their work. It is particularly beneficial that so many who have come to AEGON stay for such a considerable length of time. This is extremely valuable in building trusted relationships with our many partners, and ensuring consistency in how we run our businesses and build on the experiences that have brought us to where we are today. As for cultivating leaders and leadership qualities at all levels, it's important to keep in mind that whether an individual has been with the company one year, five years, ten years or more, the key to personal and professional advancement is the desire and willingness to learn and engage with others. Ultimately, it is incumbent on managers to recognize that desire and to foster the right opportunities for ongoing professional growth.

I'm pleased to say that AEGON has a very innovative and successful management development program. AEGON University was established in 1993 and brings together 30 to 40 junior managers from across the AEGON network who demonstrate potential and strong commitment to the future of the company. My colleague on the Executive Board, Johan van der Werf, is principally responsible for overseeing AEGON University and developing the curriculum. This is a three-week intensive program that spans two years and includes team building and relationship building in a wide variety of learning and development forums. Two of the weeks are spent in the U.S. and one week is spent in the Netherlands. In the US, we have the AEGON Leadership Academy – a weeklong intensive program – which likewise brings together a diverse group of professionals from a variety of business and country units to share ideas, best practices and to form relationships to benefit their specific area of work. Inevitably it is the company as a whole that ultimately benefits from this type of candid and quality exchange. We're very proud of those who have graduated from AEGON University and AEGON Leadership Academy and it's particularly gratifying to see how so many of them have emerged as leaders and maintained the strong relationships that were forged in these programs.



**JOS STREPPEL**  
CFO AND MEMBER OF THE  
EXECUTIVE BOARD

*What is AEGON's view on the recent corporate governance developments in the Netherlands?*

On January 1, 2004, a new and enhanced era of corporate governance came into effect in the Netherlands with the enactment of the Dutch Corporate Governance Code. AEGON Board members have been actively involved in all phases of development of corporate

governance in the Netherlands. As an active participant in the extensive discussions surrounding the preparation and publication of the code, AEGON welcomes this very important improvement in corporate governance that will benefit the entire Dutch business community. With the code in place, Dutch corporate governance has improved to a level that is comparable to international best practices. The goals of the code, however, can only be achieved if shareholders actively use the enhanced power allowed for by the new code and increase their participation in General Meetings. AEGON, as an institutional investor, will play a more active role and we further expect our own shareholders to do the same. AEGON is a member of the Stichting Communicatiekanaal Aandeelhouders, a Dutch foundation aimed at enhancing communication with and the participation of shareholders at General Meetings. AEGON welcomes the possibility of proxy voting and, for the first time, shareholders will be able to vote electronically even if they are not present at the upcoming shareholders' meeting.

*Will reporting under International Financial Reporting Standards have a big impact on AEGON?*

The 2004 financial year was the last period in which AEGON reported under Dutch Accounting Principles (DAP). From 2005 onwards, AEGON and all exchange-listed companies in the European Union will report under International Financial Reporting Standards (IFRS). Thanks to all the hard work from our people across the company, the organization is fully up to speed and prepared for the transition to IFRS reporting. I believe the transition to IFRS is an important step towards enhancing international comparability and transparency of accounts, a trend that AEGON strongly supports. At least in the initial phase, the transition to these new accounting standards will result in some complications; for instance, we can expect to see a level of volatility in AEGON's financial statements that is purely accounting-driven. This is caused primarily by an inconsistency between the way assets are valued on the one hand and liabilities considered on the other. We expect this issue to be addressed under phase two of IFRS. It is our intention to disclose comparative IFRS 2004 figures on April 14, 2005 for both the full year and on a quarterly basis. Reconciliations from DAP to IFRS will also be disclosed. This will be well ahead of the publication of our first quarter 2005 results, which will be reported according to IFRS and are due on May 11, 2005.

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Although the transition to IFRS is a very important process with far reaching consequences, it does not change the fundamental economic realities of AEGON's business or the way we manage the business. The main impact of the transition is the timing of the recognition of earnings, rather than a change in the underlying economic value of the business. Furthermore, AEGON's capital position should not look materially different under IFRS and we expect rating agencies to look through the reported financial statements in order to focus on the underlying reality and economic substance of companies. At the same time, IFRS has no direct bearing on the cash flow generated from the business and will not change our dividend paying ability or dividend policy.

During this period of transition, AEGON's value must be demonstrated by other indicators, such as operating earnings, the value of new business and embedded value. With regards to the latter, I have been an active participant in the Chief Financial Officers (CFO) Forum, which has developed the European Embedded Value Principles, aimed at achieving greater performance comparability between companies.

***Can the company afford to pay an attractive dividend and at the same time support further growth of the business?***

AEGON aims to pay its shareholders a stable and adequate dividend that is supported by the company's cash flow and capital position. In 2004, we saw an ongoing improvement of AEGON's cash flows and capital position. The 5% increase in the dividend for 2004 that the board has proposed is a further indication of AEGON's capital strength, as well as of our continued confidence in the business. AEGON's strong capital position and cash flow allow the company to fund ample opportunities for organic growth.

***Have there been any major changes in the strength of the AEGON's capital base?***

AEGON continues to enjoy very strong capital adequacy ratings in all the local country units, while the group capital position remains solid. In view of the weakness of the US dollar versus the euro over the past year, it is important to note that currency movements do not impact the solvency positions of the various country units, as they hold both their assets and liabilities in their respective local currencies. Translation effects do impact the absolute amount of total shareholders' equity in euros on a group level, but changes in currency rates do not affect leverage ratios as capital leverage debt is held in various currencies on a pro rata basis relative to the invested capital. In 2004, AEGON further strengthened the quality of its capital base by replacing maturing senior debt with EUR 950 million and USD 500 million of Junior Perpetual Capital Securities.



ALEX WYNAEHTS  
MEMBER OF THE  
EXECUTIVE BOARD

***How important is multi-channel distribution in AEGON's strategy?***

Multi-channel distribution has always been an integral part of AEGON's growth strategy. AEGON strives to have a good mix between captive channels and third party distribution, such as brokers and financial institutions. In 2004, we took some important steps to further enhance our distribution reach. In Spain, for

instance, the joint-venture with Caja de Ahorros del Mediterráneo became operational in June and has been off to a very promising start. We are exploring opportunities to strike similar arrangements in other parts of the country. In China, we signed a national cooperation agreement with the Agricultural Bank of China, strengthening AEGON-CNOOC's multi-channel distribution strategy, which includes bank distribution, agent distribution and direct marketing. Furthermore, AEGON has developed into one of the premier international direct insurance marketing organizations, transferring the expertise developed by AEGON Direct Marketing Services in the United States to many other countries such as Korea, Taiwan, and Australia, to name a few. We made the decision in the UK to bring together five leading Independent Financial Advisor (IFA) businesses to form one company, called Origen. This move enables us to have a balanced distribution mix between captive and independent channels in the rapidly changing distribution landscape.

***What are AEGON's expectations for further growth in other parts of Europe?***

We believe that developments in the European life and pensions market could potentially unlock a vast growth opportunity, albeit not necessarily in the immediate future. Government programs for retirement in many European countries are becoming increasingly expensive as populations age and dependency ratios increase. Many current programs are unsustainable in the long run. Many governments face this reality and they are increasingly showing political courage in starting to implement reforms. In any case, it is clear that European citizens will be required to make a larger contribution to their own retirement provisions. This trend creates an opportunity for the private sector in most European countries. The question remains whether governments will allow the private sector to address this opportunity in a profitable way, or if excess regulation will make it unattractive for the private sector. In the long-term, we expect governments to realize that the only way to successfully solve the persistent

retirement/pension issues is to ensure the active participation of the private sector. With its strong experience in pensions business in the Netherlands and the United Kingdom, AEGON has a wealth of expertise that it can leverage in other parts of Europe. The joint-venture for European pensions with the French mutual company, La Mondiale, is a prime example of our ability to enter new markets and add value with the right business partners. Given AEGON's global expertise in providing a wide range of life, pensions and associated asset accumulation products through a multi-channel distribution network, the company is well positioned to capture the long-term opportunity in Europe.

#### *How is AEGON leveraging the successful platform in Hungary into other CEE countries?*

In May of 2004, the European Union's most significant enlargement ever – in terms of scope and diversity – became a reality with the incorporation of ten new countries into the Union. Together, they represent more than 100 million citizens. AEGON has had an important presence in Central and Eastern Europe since 1992, when AEGON entered the Hungarian market. Over the years, AEGON Hungary has been successfully transformed into an efficient, market focused business. The good position of AEGON Hungary with its strong local management serves as a platform for cost efficient expansion into other countries in the region. An example of this is the experience in Slovakia. Benefiting from the proximity to AEGON Hungary, AEGON Slovakia became operational in September 2003, using the systems and support of the Hungarian business to pursue a multi-channel distribution strategy. In November 2004, a Slovakian pension fund management company was launched. Following the successful start in Slovakia, the Czech Republic was identified as the next country for expansion and the business there will become operational in the early part of 2005.

#### *What is AEGON's strategy to seize growth opportunities in Asia?*

AEGON continues to pursue a focused growth strategy in Asia, directed at markets that combine solid growth potential with sufficient market size in a stable political environment. AEGON is currently active in Taiwan and, through its joint-venture with CNOOC, in China with fully fledged insurance operations. India and Japan have been identified as other potential target markets. In line with AEGON's decentralized operating model, it continues to be our belief that to be successful, it is crucial to have strong local management in place with the ability to transfer and adapt the group's expertise to local circumstances. One of the reasons for our success is that we have been able to not only attract the right senior executives, that fit into the AEGON corporate culture, but talented operational management as well. Also in line with the group's fundamental business strategy, AEGON does not indiscriminately chase volume growth in its Asian operations, but is committed to growing the top line while maintaining the focus on profitability.



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

#### *How would you characterize the opportunities for AEGON The Netherlands?*

AEGON The Netherlands operates in a very competitive but also very dynamic market. This market is far from saturated, however, due to such prevailing factors as a government that is retreating from long-term protection schemes and an aging population. Furthermore, several new legislative steps are creating

opportunities for private insurers to actively operate in areas that have been traditionally reserved for the public domain.

For example, new laws soon to take effect have created significant opportunities in the disability market. Thanks to our demonstrated success in reintroducing people to the labor process more quickly and efficiently, we can play an important role in this new environment. Also, the introduction of the so called 'levensloop' or lifecycle scheme is aimed at providing new savings plans to individuals who would like to retire early or take a sabbatical. Then, of course, there continues to be a strong demand for creative solutions in the pensions market, since the majority of the Dutch population does not have adequate provisions for retirement.

AEGON The Netherlands is maximizing the opportunities created by these new developments with new, innovative products, concepts and propositions to address the various needs of increasingly discerning clients, with a wider array of needs. Our main focus continues to be on providing pensions, life insurance and disability coverage. However, general insurance, banking and investment products also pose significant opportunity. We believe that by ensuring a disciplined and transparent execution of our strategy, AEGON The Netherlands will be well positioned to seize the opportunities of a changing market and ensure long-term and healthy growth.

#### *How has AEGON The Netherlands changed its focus to respond to changes in the market?*

By proactively working with our clients and offering them suitable solutions and information in each stage of their lives, we are investing in long-term loyalty and are offering (financial) security. Research shows that at a time when confidence in government policies, politics and the economy is decreasing, there is a particularly strong interest in and need for alternative financial solutions. AEGON The Netherlands has positioned itself as an engaged and solid insurer.

Transitioning from a product-based organization to a relationship and customer-focused organization, AEGON The Netherlands began an extensive restructuring effort in 2003. Largely completed in 2004, the new structure signifies a fundamental change in the way AEGON The Netherlands reaches and serves its customers. The process has involved replacing

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independent business units with service centers and marketing and sales units that operate jointly and in cooperation. A number of efficiencies have been realized, including the reduction of locations from six to four, the reassignment of 300 employees to new locations and a reduction of 244 in the number of back-office employees through natural attrition.

AEGON The Netherlands has been transformed to one compact, innovative and accessible organization, in which the selling power of the marketing and sales units can be better utilized. Furthermore, by enhancing the technology of our service centers, AEGON The Netherlands can be even more responsive to the needs of its customers and the changes in the market.

## *What is AEGON doing to ensure responsible corporate behavior?*

More than ever, consumers are keenly attuned to how companies perform as corporate citizens and define the terms for sound corporate ethics. AEGON recognized corporate responsibility and reliability at an early stage as an integral part of doing business in today's world. These concepts have been integrated throughout the organization worldwide and serve as guiding principles in our daily operations. Respect, quality, transparency and trust have been identified as intrinsic values of AEGON which will continue to support our mission of creating better futures for all our stakeholders.

In September 2004, AEGON published the first Corporate Responsibility annual report, which served to identify the activities undertaken to ensure sound corporate responsibility principles, as well as the particular strengths and weaknesses of AEGON in this regard. During the reporting year, AEGON maintained its position in the most important social indices, the Dow Jones Sustainability Index and the FTSE4Good.



PAT BAIRD  
PRESIDENT AND  
CEO AEGON AMERICAS

## *What is AEGON Americas doing to seize growth opportunities?*

AEGON Americas' extensive mix of products and distribution allows it to meet a broad range of customer needs through various channels. We have many opportunities for growth, with various initiatives under way and on the drawing board. What is exciting is that several of these opportunities involve simply

capitalizing on our current mix of businesses and customer base.

The middle-income life insurance market, a key market for our company, has tremendous potential. According to industry research, over one-third of all US households have no life insurance and more than half with incomes of USD 35,000 or less say they need more. This underserved market segment has good persistency and meets our risk and profitability requirements. Not only do we have the right products in place, we believe that with our agency, direct-to-consumer and worksite marketing channels, we have the expertise and resources to capture a bigger share of this segment.

We are also focused on helping clients retain more assets at the point of retirement. By 2010, it is estimated that 'baby boomers' and others will begin rolling over more than USD 400 billion annually in pension assets. We have hundreds of thousands of retirement plan participants and see an opportunity here to provide our high quality products and services through our well diversified distribution channels.

Reinsurance is another opportunity for excellent growth and attractive returns. Recently there has been a strain on life reinsurance capacity as reinsurance providers have exited the market or been acquired. At the same time, the need for reinsurance capacity remains stronger than ever. With more favorable pricing and fewer players today – particularly those with the full range of capabilities our company possesses – the outlook for growth is promising.

We are also looking at leveraging and growing our existing forms of distribution as well as carefully expanding our businesses into new countries when and where it makes sense. Finally, we will continue to look at selective acquisition opportunities that meet our pricing and risk tolerance disciplines and will complement the growth of our core businesses.

## *How are you expanding your distribution franchise?*

Our franchises are strong and growing. A broad, well diversified distribution network remains a core advantage, and we continue to introduce more products and services through these channels. It is rare that we have a single product franchise with any one distributor. Rather, we have broad financial services relationships

encompassing a number of product lines. The solid growth of traditional life sales and small 401(k) retirement plans sold through our bank partners is an example and reflects our commitment to expanding these relationships

*What is your approach to managing in today's financial market?*

We focus on growing product sales and profitability within acceptable levels of risk. In the interest rate and equity risk business, it is important to look at potential losses in relation to plausible correction scenarios. For example, we remain sensitive to the risks involved in writing large amounts of fixed annuity business when interest rates are at historically low levels. Simply put, when current crediting rates are at or near the minimum guarantee in the contract, the risk of not meeting our long-term profitability targets increases. In order to manage sales levels to meet our risk tolerance, we made the decision to reduce the minimum guarantees to 1.5% in most states and, in some instances, we decided to reduce commissions. While this was a difficult short-term decision, a disciplined approach to managing our risk is important for our long-term profitability and stability. Notwithstanding, we do continue to sell a certain level of fixed annuities as well as an array of other products to remain active in the market and within each distribution channel.

*How do you view your businesses and markets?*

We view most of our businesses as growth opportunities. But regardless of whether it is considered a growth, mature or changing market, there are a number of ways we can achieve our desired hurdle rates in each business.

Essentially, if the business is growth-oriented, we focus on adding distribution, developing innovative products, expanding overseas where possible, and pursuing new initiatives. If a business is more mature, we have to manage it somewhat differently. We need to find growth areas within the mature market, such as a specific geographic niche or a new distribution arrangement. Regardless, all our businesses must always be vigilant with expenses.

If a particular business is truly part of a mature market, and you are one of the large players within that market, there are likely to be consolidation opportunities as those unable to achieve scale exit. Our management team has the tools, experience and commitment to grow earnings at sustainable risk profiles, whether their respective businesses are in growth or mature markets.

We're excited about the many opportunities ahead of us. We're working together to take advantage of our diverse organizational structure, which, I feel, positions us well to deliver growth and expected returns.



DAVID HENDERSON  
GROUP CHIEF EXECUTIVE  
AEGON UK

This will be my last contribution to this publication as I will retire in April after having served for eight years as Chief Executive of AEGON UK and more than 33 years in the organization. When AEGON acquired Scottish Equitable in 1994, it did so with the belief that the market in the United Kingdom offered substantial long-term growth potential and that Scottish Equitable was well positioned to

take advantage of that opportunity. Following a difficult period at the start of this decade, UK financial services is again an attractive industry to be in and AEGON UK (including Scottish Equitable) has strengthened its position in the market under AEGON ownership.

*What are the challenges and opportunities in the current environment for the insurance industry in the United Kingdom?*

The industry's reputation has suffered as a result of several high profile issues, which have adversely impacted consumers' confidence. As a result, it is the industry's priority to win back consumer confidence. Toward this end, AEGON UK, along with its peers, has worked to develop and implement a broad range of initiatives to restore public trust and confidence in the insurance industry. The creation of the Financial Services Authority's 'Treating Customers Fairly', is but one example supported by all major insurance providers. This code of conduct aims to ensure that customers are treated fairly in accordance with the spirit as well as the letter of the law. With the active participation of senior management, AEGON will continue to play a significant role in reclaiming consumer confidence and ensuring sound business practices for the benefit of all our stakeholders. We are confident that this work represents a new era of due diligence and corporate responsibility on a broad scale.

Developments such as the Pension Commission's Turner Report, which was published in October 2004 and widely covered in the mainstream media, indicate that both the UK Government and consumers in general are becoming much more aware of the need for individuals to make adequate provisions for their retirement. There is also a far greater appreciation of the vital role of the long-term savings and investment industry in helping individuals meet their retirement needs. There is no doubt in my mind that the market for long-term savings products in the UK will increase significantly over the medium term.

The introduction of price capping, through the stakeholder pension, has posed a serious challenge. The prevailing issue for insurance companies is how to adequately make the necessary

# INSIGHT

return on capital commensurate with the risk involved in supplying products which take many years to produce a cash pay back. The industry in general, and AEGON UK in particular, has embraced technology solutions and delivered operating efficiencies to assist in this process. In this context, the recent relaxation of price caps is a welcome development.

While we expect the UK market to remain extremely competitive over the next few years, we also expect it to present ample opportunities for steady growth this year. The number of active scale players in the UK market has declined significantly and we believe that AEGON UK is very well placed to broaden its foothold in the UK long-term savings market.

## *How is AEGON UK responding to changes brought about through depolarization?*

These positive developments are all occurring in the context of the end of the polarization regime in the UK. This long-standing system effectively required financial advisor firms to either be tied to a single provider or be independent, offering advice on every available product across the whole market. Since December 1, 2004, new rules have allowed businesses to establish relationships with more than one provider. We remain convinced that independent advisors offer the best customer proposition for many key market sectors, but we also see significant opportunities for the AEGON UK group in businesses moving to a multi-tie model. These opportunities arise in the sectors of the IFA market which may be considering a multi-tie proposition for areas of its business and, more significantly, in the previously tied sector which now has the opportunity to distribute better value products from a range of providers.

AEGON UK anticipated many of the opportunities that would result under depolarization and in many cases was the first to take advantage of the new system. For example, Scottish Equitable became the first provider to secure a multi-tie deal,

an arrangement in which it will be the sole pensions provider to Zurich Financial Services' new distribution firm. In addition, AEGON UK has cemented its existing distribution arrangement for pension products with St James's Place by extending the range of products offered via their network of 1,100 advisors. We will continue to pursue other opportunities that depolarization will inevitably bring about.

## *What are the advantages of consolidation in distribution for AEGON UK?*

The availability of quality and thorough advice throughout the sale process is a critical requirement for ensuring transparency in our products and sound business practices. This will continue to be a consistent requirement of AEGON UK's strategy with respect to its provider and distribution businesses.

We believe that a number of factors, including reduction in commissions and significantly higher regulatory and professional indemnity costs, will further drive consolidation in the very fragmented distribution market. This will allow scale distributors to benefit from increased efficiency and deliver stronger customer propositions. The investments made by AEGON UK are in distribution businesses, which can be at the forefront of this consolidation. We believe that this area of our business will be a significant source of future income for AEGON UK.

## *New leadership*

Finally, I would like to introduce AEGON UK's next Chief Executive, Otto Thoresen. He is AEGON UK's current Finance Director and a long-term member of the AEGON UK Executive Board. When Otto takes up the role on April 1, Mark Laidlaw will become Chief Financial Officer. I have every confidence that Otto will build AEGON UK into an even more formidable force in the UK market and wish him and Mark great success in their new roles.

# REVIEW OF OPERATIONS

## A COMPREHENSIVE ACCOUNT OF AEGON'S PERFORMANCE DURING 2004



# REVIEW OF OPERATIONS

## RESULTS OF OPERATIONS

	2004 in million EUR	2003 <sup>1</sup> in million EUR	%
<b>INCOME BY PRODUCT SEGMENT</b>			
Traditional life	726	778	(7)
Fixed annuities	313	282	11
GICs and funding agreements	204	164	24
Life for account of policyholders	355	248	43
Variable annuities	161	60	
Fee business	54	5	
<b>LIFE INSURANCE</b>	<b>1,813</b>	<b>1,537</b>	<b>18</b>
Accident and health insurance	294	275	7
General insurance	107	60	78
<b>TOTAL INSURANCE ACTIVITIES</b>	<b>2,214</b>	<b>1,872</b>	<b>18</b>
Banking activities	22	20	10
Interest charges and other	(453)	(429)	6
<b>INCOME BEFORE REALIZED GAINS AND LOSSES</b>			
<b>ON SHARES AND REAL ESTATE</b>	<b>1,783</b>	<b>1,463</b>	<b>22</b>
Realized gains and losses on shares and real estate	600	(270)	
<b>INCOME BEFORE TAX AND EXCEPTIONAL ITEMS</b>	<b>2,383</b>	<b>1,193</b>	<b>100</b>
Exceptional items	(218)	0	
<b>INCOME BEFORE TAX</b>	<b>2,165</b>	<b>1,193</b>	<b>81</b>
Corporation tax	(511)	(378)	35
Non-consolidated ventures	9	218	
<b>NET INCOME</b>	<b>1,663</b>	<b>1,033</b>	<b>61</b>
<b>NET INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE AND BEFORE EXCEPTIONAL ITEMS</b>	<b>1,386</b>	<b>1,277</b>	<b>9</b>

## INCOME GEOGRAPHICALLY

Americas	1,775	1,260	41
The Netherlands	720	112	
United Kingdom	218	173	26
Other countries	123	77	60
<b>INCOME BEFORE TAX BUSINESS UNITS</b>	<b>2,836</b>	<b>1,622</b>	<b>75</b>
Interest charges and other	(453)	(429)	6
<b>INCOME BEFORE TAX AND EXCEPTIONAL ITEMS</b>	<b>2,383</b>	<b>1,193</b>	<b>100</b>
Exceptional items	(218)	0	
<b>INCOME BEFORE TAX</b>	<b>2,165</b>	<b>1,193</b>	<b>81</b>
Corporation tax	(511)	(378)	35
Non-consolidated ventures	9	218	
<b>NET INCOME</b>	<b>1,663</b>	<b>1,033</b>	<b>61</b>

<sup>1</sup> The 2003 numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004. See also page 90 for a reconciliation from 2003 reported numbers to adjusted numbers.

## REVENUES GEOGRAPHICALLY 2004

in million EUR	Americas	The Netherlands	United Kingdom	Other countries	Total
Total life insurance gross premiums	6,517	3,079	5,898	875	<b>16,369</b>
Accident and health insurance premiums	2,043	187	–	88	<b>2,318</b>
General insurance premiums	–	445	–	368	<b>813</b>
Total gross premiums	8,560	3,711	5,898	1,331	<b>19,500</b>
Investment income insurance activities	5,377	1,479	152	144	<b>7,152</b>
Fees and commissions	811	297	120	16	<b>1,244</b>
Income from banking activities	–	284	–	–	<b>284</b>
Total revenues business units	14,748	5,771	6,170	1,491	<b>28,180</b>
Income from other activities					<b>333</b>
<b>TOTAL REVENUES</b>					<b>28,513</b>
Number of employees, including agent-employees	14,209	5,954	4,513	2,770	27,446

## RESULTS

Income before realized gains and losses on shares and real estate increased 22% to EUR 1,783 million in 2004. The increase, to which all major country units contributed, mainly reflects improved credit and equity markets and actions taken by management to improve product spreads and overall profitability.

Net income before realized gains and losses on shares and real estate and before exceptional items increased 9% to EUR 1,386 million in 2004. This increase reflects the improved results from AEGON's country units, which more than offset the lower income from Transamerica Finance Corporation (a net loss of EUR 20 million compared to a net profit of EUR 218 million in 2003). Net income, which includes realized gains and losses on shares and real estate and an EUR 218 million exceptional charge, increased to EUR 1,663 million compared to EUR 1,033 million in 2003. The exceptional charge relates to the agreement with Dexia to

resolve the dispute over the sale of Labouchere to Dexia in 2000. The effective tax rate declined to 24% in 2004 from 32% in 2003 primarily reflecting higher realized gains on tax preferred investments in the Netherlands and a one-time reduction in taxes in the United States.

Commission and expenses increased 8% to EUR 5,756 million in 2004. Total operating expenses were 10% higher than in 2003 at EUR 3,111 million. However, EUR 291 million of the increase was caused by the consolidation of the remaining TFC activities in 2004. Excluding this effect operating expenses were level with 2003. Main factors impacting expenses include additional employee pension expense, post-retirement benefits costs and increased regulatory and compliance costs, offset by expense savings in operating units.

Revenue generating investments amounted to EUR 296 billion on December 31, 2004. This represents an increase of 4% over the prior year.

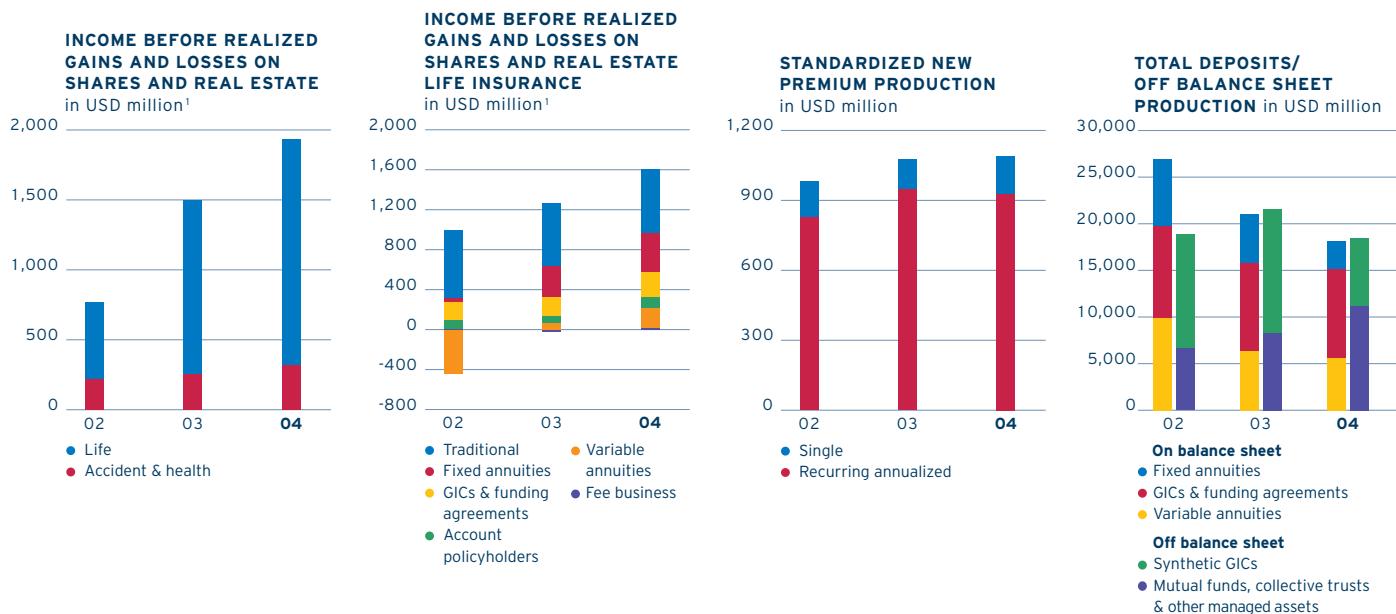
Included in this report are financial measures, pre-tax as well as after tax, that exclude realized gains and losses on shares and real estate and exceptional items. Net income before realized gains and losses on shares and real estate and before exceptional items is a non-GAAP measure. Management uses this non-GAAP measure, in addition to GAAP measures, as an indicator of AEGON's financial performance and believes that the

presentation of this measure provides useful and important information to analysts and investors. This non-GAAP measure should be seen as part of a range of supplementary measures, that assist in achieving greater transparency and understanding of insurance reporting and can help investors and analysts in comparing AEGON with its peers. Reconciliation of this measure to the most comparable GAAP measure is provided below.

	2004 in million EUR	2003 in million EUR
Net income before realized gains and losses on shares and real estate and before exceptional items	1,386	1,277
Realized gains and losses on shares and real estate	600	(270)
Corporation tax on realized gains and losses on shares and real estate	(105)	26
Exceptional items	(218)	0
<b>NET INCOME</b>	<b>1,663</b>	<b>1,033</b>

# REVIEW OF OPERATIONS

## AMERICAS



### AMERICAS (INCLUDES AEGON USA AND AEGON CANADA)

INCOME BY PRODUCT SEGMENT	2004 in million USD	2003 <sup>1</sup> in million USD	%	2004 in million EUR	2003 <sup>1</sup> in million EUR	%
Traditional life	649	625	4	522	553	(6)
Fixed annuities	389	319	22	313	282	11
GICs and funding agreements	254	185	37	204	164	24
Life for account of policyholders	101	68	49	81	60	35
Variable annuities	200	68		161	60	
Fee business	17	(20)		14	(18)	
<b>LIFE INSURANCE</b>	<b>1,610</b>	<b>1,245</b>	<b>29</b>	<b>1,295</b>	<b>1,101</b>	<b>18</b>
Accident and health insurance	321	254	26	258	224	15
<b>INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE</b>	<b>1,931</b>	<b>1,499</b>	<b>29</b>	<b>1,553</b>	<b>1,325</b>	<b>17</b>
Realized gains and losses on shares and real estate	276	(74)		222	(65)	
<b>INCOME BEFORE TAX</b>	<b>2,207</b>	<b>1,425</b>	<b>55</b>	<b>1,775</b>	<b>1,260</b>	<b>41</b>
Corporation tax	(638)	(391)	63	(513)	(346)	48
<b>NET INCOME</b>	<b>1,569</b>	<b>1,034</b>	<b>52</b>	<b>1,262</b>	<b>914</b>	<b>38</b>

<sup>1</sup>The numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004

### EXCHANGE RATES

PER 1 EUR	Weighted average		Year-end	
	2004	2003	2004	2003
USD	1.2436	1.1311	1.3621	1.2630
CAD	1.6166	1.5809	1.6416	1.6234

#### **INCOME BEFORE REALIZED GAINS AND LOSSES**

AEGON Americas income before realized gains and losses on shares and real estate increased 29% to USD 1,931 million for 2004. The 2004 results benefited significantly from lower additions to the asset default provision of USD 312 million (USD 204 million in 2004 versus USD 516 million in 2003). Certain product spreads increased in 2004 due to actions taken to lower crediting rates beginning in 2003. These positive items were partially offset by lower employee pension plan income of USD 53 million. The 2003 results were negatively impacted by charges for accelerated Deferred Policy Acquisition Costs (DPAC) amortization of USD 85 million.

Traditional life income before realized gains and losses on shares and real estate of USD 649 million increased 4% compared to 2003. Lower additions to the default provision of USD 114 million during 2004 and improved product spreads and business growth have contributed to the increase. In addition, results in 2003 included the impact of the accelerated DPAC amortization of USD 28 million. These improvements were partially offset by a non-recurring reserve increase in the reinsurance business of USD 80 million, consisting primarily of a change in the methodology for computing incurred but not reported claims and for the conversion to a new reserve system. The model and system changes reflect the ability to compute reserves on more specific information from ceding companies. Mortality experience continues to be favorable relative to pricing expectations when measured over a longer horizon. Other items impacting the 2004 results included USD 13 million of higher mortality costs, USD 16 million of higher additions to the technical provisions related to the adoption of SOP 03-01 and USD 14 million of lower employee pension plan income. Included in 2003 results was a one-time USD 70 million property insurance recovery and provision release and USD 10 million of interest on an IRS tax refund.

Fixed annuity income before realized gains and losses on shares and real estate increased 22% to USD 389 million in 2004. The increase includes USD 137 million of lower additions to the default provision. The 2004 results reflect USD 20 million lower employee pension plan income compared to 2003. Product spreads have improved as crediting rates were lowered on both existing and new deposits throughout 2003 and early 2004, taking the majority of the existing book of contracts to the contractual minimum. Product spreads on an annual basis for 2004 on the largest segment of the fixed annuity book, which take into account 35 basis points for priced defaults, increased to 222 basis points from 168 basis points in 2003. The 2003 results included USD 13 million of interest from an IRS tax refund and USD 11 million from a property insurance settlement.

GICs and funding agreements income before realized gains and losses on shares and real estate increased 37% to USD 254 million compared to 2003. The increase includes USD 37 million of lower additions to the default provision and a one-time positive effect related to the performance of a loan portfolio (USD 16 million received in the first quarter of 2004). The 2003 results included USD 7 million of interest from an IRS tax refund and USD 6 million from a property insurance settlement. Employee pension plan income was USD 10 million lower in 2004. Improved product spreads and growth in assets were the other

primary factors contributing to the increase.

Life for account of policyholders income before realized gains and losses on shares and real estate of USD 101 million increased 49% for 2004 compared to 2003. The increase included USD 12 million of lower accelerated DPAC amortization, higher fee income due to asset growth in the portfolio as a result of continued equity market growth and improved mortality and persistency.

Income before realized gains and losses on shares and real estate in the variable annuity line of business increased from USD 68 million in 2003 to USD 200 million in 2004. Improved equity market performance resulting in higher fees, more favorable persistency, lower guaranteed death benefit costs and reduced operating expenses contributed to the significant earnings growth. For DPAC amortization in the variable annuity business, equity return assumptions have been based on year end account balances and assume the equity markets will grow at 6.25% for five years and 9% thereafter. The gross short and long-term fixed security growth rate remains at 6% and the gross short and long-term rate for money market funds remains at 3.5%.

Fee business income before realized gains and losses on shares and real estate was USD 17 million in 2004 compared to a loss of USD 20 million in 2003. The 2004 income reflects growth in assets due to mutual fund deposits and equity market appreciation. The 2003 results were impacted by an accrual for a long-term formula-based deferred compensation plan related to a participation in an investment management company.

Accident and health income before realized gains and losses on shares and real estate of USD 321 million increased 26% in 2004 compared to 2003, primarily as a result of USD 26 million of lower additions to the default provision. The health results benefited in 2004 from effective expense containment and premium rate increases in certain health products contributing to improved overall profitability. Positive one-time recoveries of commissions and profit sharing in 2004 provided about USD 12 million of additional income.

On July 1, 2004, AEGON USA announced that it would cease new long term care sales during the first half of 2005.

#### **NET INCOME**

Net income, which includes realized gains and losses on shares and real estate in both 2004 and 2003, increased 52% to USD 1,569 million compared to USD 1,034 million in 2003. For 2004, realized gains on shares and real estate were USD 276 million while for 2003 a realized loss was incurred of USD 74 million.

The effective tax rate was 29% for 2004 compared to 27% for 2003. The tax provision includes a one-time reduction in taxes of USD 63 million related to repatriation of accumulated earnings from Canada pursuant to the American Jobs Creation Act. The increase in taxes compared to 2003 is driven by a higher increase in earnings relative to the growth in tax preference items.

#### **REVENUES**

Revenues of USD 18,341 million increased 11% compared to 2003. Life insurance gross premiums of USD 8,104 million increased 16%, accident and health insurance premiums of USD 2,541 million increased 1%. Investment income of USD 6,687 million

# REVIEW OF OPERATIONS

increased 10% (4% excluding realized gains and losses on shares and real estate), and fees and commissions of USD 1,009 million increased 4%.

Life general account single premiums of USD 1,199 million increased 31% in 2004, while life general account recurring premiums of USD 5,002 million increased 5%. The significant increase in general account single premiums was due to simplified issue sales in the Transamerica Capital Inc. bank channel and terminal funding premiums generated by Retirement Services. Strong sales in Agency Group markets and assumed reinsurance premiums contributed to the growth in recurring premiums.

Life for account of policyholders premiums of USD 1,903 million were up 46% in 2004 compared to 2003. Single premiums of USD 651 million increased significantly in the fourth quarter of 2004 due to the sale of a large Bank Owned Life Insurance (BOLI) case. Certain additional variable universal life deposits (USD 446 million) were reported as single premiums in prior years but are reported as recurring in 2004.

Accident and health premiums of USD 2,541 million were 1% higher than in 2003 due to increased sales through sponsored programs along with rate increases on certain health products earlier in the year offset by the effect from the announcement earlier in the year of the discontinuance of new sales of long-term care policies in 2005.

Investment income, excluding realized gains and losses on shares and real estate, was 4% higher in 2004 compared to 2003. Interest rate related net trading gains of USD 402 million have been deferred for 2004. Asset defaults improved significantly over last year and were below long-term expected rates. Actual net credit losses for 2004 were USD 204 million, including USD 193 million related to bonds and USD 11 related to mortgages. This compares to credit losses of USD 516 million in 2003. Significant impairment losses in 2004 include USD 80 million of aircraft and carrier related investments and USD 93 million for various structured investments. The default provision of USD 277 million remains unchanged from the 2003 year-end.

The increase in fees and commission revenues is primarily attributable to increased investment management fees earned as a result of higher asset balances. Fees were lower on certain membership products sold on a direct basis due to the Federal Communications Commission and Federal Trade Commission regulations including the national 'Do not call' list.

## COMMISSIONS AND EXPENSES

Commissions and expenses include commissions, operating expenses and the net change in policy acquisition costs. Commissions and expenses of USD 4,191 million increased 9% in 2004 compared to 2003. Excluding additional employee pension plan expense, operating expenses of USD 1,819 million were level compared to 2003. Additional employee pension expense caused operating expenses to increase by USD 53 million for the year. Higher regulatory and compliance costs were offset by expense savings in the operating units.

## PRODUCTION

Standardized new life production increased by 1% to USD 1,087

million (5% on a comparable basis to 2003 – certain additional variable universal life deposits were reported as single premiums in prior years but are reported as recurring in 2004), reflecting growth in general account sales due to solid agent recruiting. Life for account of policyholder sales increased significantly in the fourth quarter of 2004 as a large BOLI case closed. These sales tend to be large and less predictable in nature.

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.

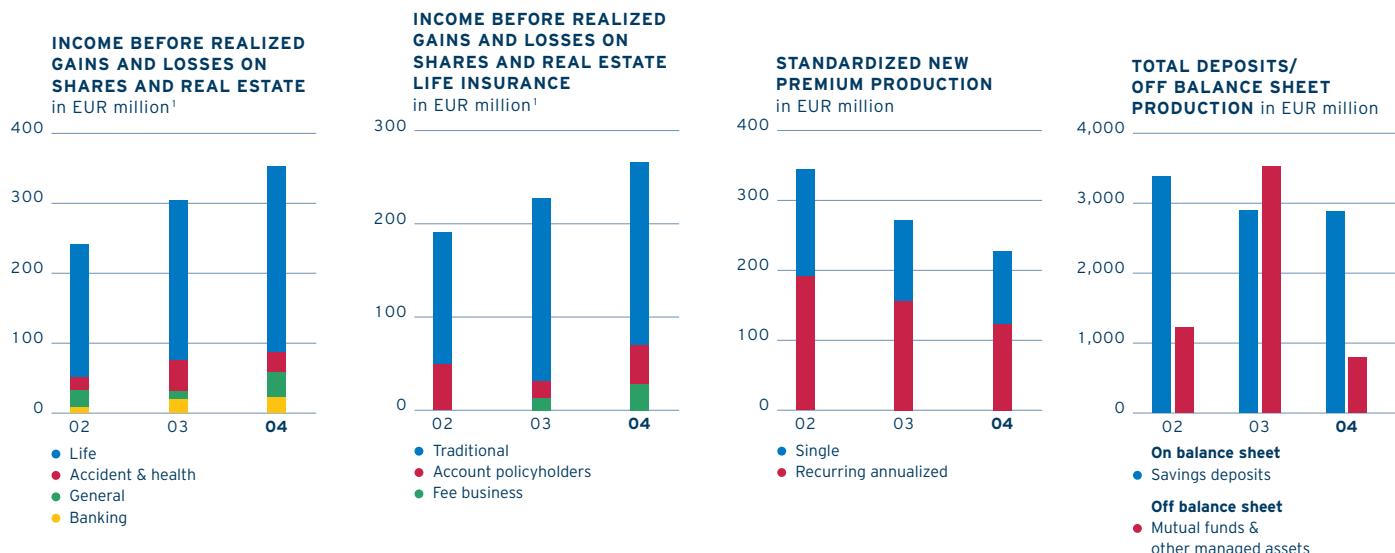
Fixed annuity new deposits of USD 3.0 billion decreased 42% in 2004 compared to 2003. Lower fixed annuity production reflects AEGON's continued pricing discipline in this market, which has been affected by the current low interest rate environment. In response to the low interest rate environment during 2003, AEGON introduced new products with a lower guaranteed annual interest rate. Withdrawals from existing contracts during 2004 were above last year's level but remain at historically low levels, reflecting the relatively low new money interest rates available on new policies. Fixed annuity balances of USD 44 billion decreased USD 792 million over 2003.

GIC and funding agreement production of USD 9.5 billion increased slightly in 2004 compared to 2003. Higher traditional GIC sales were partially offset by lower medium term funding agreement sales. The tight credit spreads in the market negatively impacted sales in 2004 as disciplined pricing was maintained to achieve acceptable returns. The balance of GIC and funding agreements at December 31, 2004, consists of USD 29.4 billion general account and USD 1.7 billion separate account. The combined balances increased 7% over 2003.

Variable annuity deposits of USD 5.6 billion decreased 12% in 2004 compared to 2003. The decrease is due to the discontinuance of the guaranteed minimum income benefit (GMIB) feature in the first quarter of 2003, as part of AEGON's disciplined approach to write profitable business at acceptable risk profiles. AEGON introduced the '5 for life' guaranteed minimum withdrawal benefit during the fourth quarter of 2004 to complement the existing 'Guaranteed Principal Solution' rider introduced at the beginning of the year. The balances of variable annuities increased 10% to USD 44.5 billion primarily reflecting strong equity market performance in 2004.

Off balance sheet products include managed assets such as mutual funds, collective investment trusts and synthetic GICs. Off balance sheet production was USD 18.4 billion, a 14% decrease compared to 2003. Mutual fund sales of USD 11.2 billion for 2004 increased 35% over 2003, reflecting the expanded marketing relationships with wirehouse networks. Synthetic GIC sales of USD 7.3 billion decreased 45% as equity products are now attracting more funds than stable value alternatives. Off balance sheet assets increased 20% over 2003 and totaled USD 76 billion at year-end 2004. AEGON 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.

# THE NETHERLANDS



## AEGON THE NETHERLANDS

### INCOME BY PRODUCT SEGMENT

	2004 in million EUR	2003 <sup>1</sup> in million EUR	%
Traditional life	196	197	(1)
Life for account of policyholders	42	18	
Fee business	28	13	
<b>LIFE INSURANCE</b>	<b>266</b>	<b>228</b>	<b>17</b>
Accident and health insurance	28	44	(36)
General insurance	36	11	
<b>TOTAL INSURANCE ACTIVITIES</b>	<b>330</b>	<b>283</b>	<b>17</b>
Banking activities	22	20	10
<b>INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE</b>	<b>352</b>	<b>303</b>	<b>16</b>
Realized gains and losses on shares and real estate	368	(191)	
<b>INCOME BEFORE TAX</b>	<b>720</b>	<b>112</b>	
Corporation tax	(83)	(87)	(5)
<b>NET INCOME</b>	<b>637</b>	<b>25</b>	

<sup>1</sup>The numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004

# REVIEW OF OPERATIONS

## GENERAL

AEGON The Netherlands implemented a new organizational structure and a revised strategy in 2004 in order to provide better services to its clients with higher value-added products sold through multiple and more broad-based distribution channels. As of January 1, 2004, thirteen different front and back offices were integrated into one company with five service centers and four marketing and sales organizations. The number of geographical locations was reduced from six to four. The number of employees at December 31, 2004, excluding agent-employees, was 7% lower than at the last year-end.

## INCOME BEFORE REALIZED GAINS AND LOSSES

Income before realized gains and losses on shares and real estate increased 16% to EUR 352 million compared to 2003. The 2004 results were positively influenced by lower additions to the guarantee provisions, partly offset by additions to the profit sharing provisions and higher pension and other post-retirement charges.

Traditional life income before realized gains and losses on shares and real estate amounted to EUR 196 million in 2004, which is almost level with 2003. The 2004 results are negatively influenced by additional profit sharing expenses in 2004 whereas the 2003 results benefited from the release of profit sharing provisions. Investment income over 2004 benefited from the release of provisions on preferred dividends and from the interest rate spread on interest rate swaps.

Life for account of policyholders income before realized gains and losses on shares and real estate increased by EUR 24 million to EUR 42 million in 2004, primarily reflecting EUR 31 million lower additions to the provision for guarantees.

Income before realized gains and losses on shares and real estate on fee business more than doubled in 2004 to EUR 28 million, reflecting the inclusion of TKP and AEGON Asset Management.

Accident and health income before realized gains and losses on shares and real estate decreased by 36% to EUR 28 million in comparison to 2003 mainly due to a one time reinsurance gain taken in 2003, whereas 2004 showed a more normal level of claims experience.

General insurance income before realized gains and losses on shares and real estate increased in 2004 by EUR 25 million to EUR 36 million, mainly due to new business and good claims experience, particularly in the fire branch.

Income before realized gains and losses on shares and real estate from banking activities increased by 10% to EUR 22 million in 2004. The increase is largely attributable to lower additions to the provisions for credit risks and cost savings, offsetting the margins compression.

## NET INCOME

Net income, which includes realized gains and losses on shares and real estate, amounted to EUR 637 million, compared to a net profit of EUR 25 million in 2003 mainly due to increased realized gains on shares and real estate in 2004, which amounted to

EUR 368 million in comparison to a loss of EUR 191 million in 2003.

The effective tax rate is 11.5%, primarily as a result of the participation exemption on realized gains and losses on shares.

## REVENUES

Total revenues increased by 9% to EUR 5,771 million in 2004. Premium income decreased by 4%, which was more than offset by higher investment income.

Traditional life recurring premiums declined in 2004, whereas single premiums remained stable in comparison to 2003. The decline in recurring premiums is due to a lack of new contracts in the group pension markets. Life for account of policyholder premiums decreased in comparison to 2003 mainly because of a decline in single premium back services on existing contracts caused by the low economic growth and a shift from defined benefit towards defined contribution plans. Recurring premium showed growth from the existing portfolio.

For non-life, accident and health premium income increased by 15% in comparison to 2003 mainly due to new production. General insurance premiums were 3% lower than in 2003 almost entirely due to the divestiture in 2003 of certain blocks of business.

Investment income improved in 2004 owing to higher direct income from fixed income investments, (preferred) shares and real estate and most significantly because of realized gains on shares and real estate of EUR 368 million in 2004, which far exceeded realized losses of EUR 191 million in 2003.

## COMMISSIONS AND EXPENSES

Commissions and expenses of EUR 1,098 million were 15% higher than in 2003. Commissions were 10% lower than in 2003, mainly caused by lower production. Operating expenses amounted to EUR 670 million, 13% higher than in 2003 and were impacted by various factors including additional contributions for post-retirement employee benefits and restructuring expenses.

EUR 13 million of expenses were incurred in 2004 in relation to restructuring. In addition, a provision of EUR 22 million for the early retirement of employees in 2005 and 2006 was taken in 2004.

## PRODUCTION

Standardized new life production declined 17% to EUR 227 million in 2004 due to a lack of large case pension contract activity and due to efforts to improve margins in the various channels and products. Through the implementation of a new organization and renewed focus on intermediaries, AEGON is committed to improve intermediary distribution.

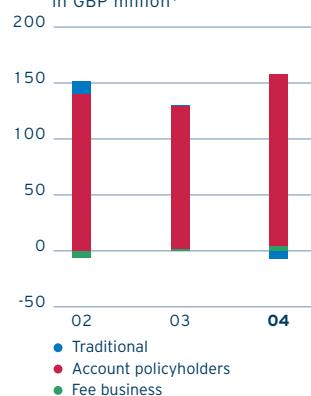
Non-life production increased in both accident and health (36%) and general insurance (9%). Accident and health production was particularly good in the sick leave market.

Off balance sheet production decreased by 78% compared to the strong performance in 2003.

Total assets under management have grown by EUR 3.6 billion since year-end 2003. A net increase in the value of asset-only contracts of EUR 1 billion, positive revaluations and reinvested operating cash flow were the important drivers for the increase.

# UNITED KINGDOM

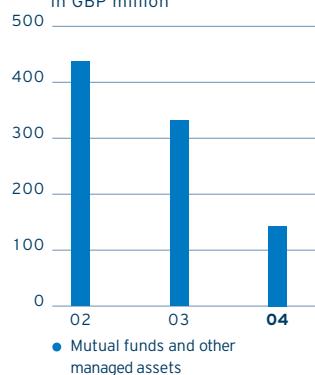
## INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE LIFE INSURANCE in GBP million<sup>1</sup>



## STANDARDIZED NEW PREMIUM PRODUCTION in GBP million



## OFF BALANCE SHEET PRODUCTION in GBP million



## AEGON UNITED KINGDOM

### INCOME BY PRODUCT SEGMENT

	2004 in million GBP	2003 <sup>1</sup> in million GBP	%	2004 in million EUR	2003 <sup>1</sup> in million EUR	%
Traditional life	(7)	1		(11)	2	
Life for account of policyholders	154	128	20	227	184	23
Fee business	4	1		6	2	
INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE	<b>151</b>	<b>130</b>	<b>16</b>	<b>222</b>	<b>188</b>	<b>18</b>
Realized gains and losses on shares and real estate	(3)	(10)	70	(4)	(15)	73
INCOME BEFORE TAX	<b>148</b>	<b>120</b>	<b>23</b>	<b>218</b>	<b>173</b>	<b>26</b>
Corporation tax	(42)	(34)	24	(62)	(49)	27
<b>NET INCOME</b>	<b>106</b>	<b>86</b>	<b>23</b>	<b>156</b>	<b>124</b>	<b>26</b>

<sup>1</sup>The numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004

### EXCHANGE RATES

PER 1 EUR	2004	Weighted average 2003	2004	Year-end 2003
GBP	0.6790	0.6909	0.7051	0.7048

# REVIEW OF OPERATIONS

## INCOME BEFORE REALIZED GAINS AND LOSSES

Income before realized gains and losses on shares and real estate of GBP 151 million in 2004 increased 16% compared to 2003. The main reason for the increase was higher policy fee income reflecting an average 12% higher FTSE level in 2004 compared to 2003.

Traditional life reported a loss of GBP 7 million before realized gains and losses on shares and real estate, a decline of GBP 8 million compared to 2003. The main reason is that the 2003 result included a number of one-off mortality profits and provision releases.

Income before realized gains and losses on shares and real estate in the life for account of policyholder product segment was GBP 154 million for 2004, an increase of 20% compared to 2003. This growth is primarily due to increased levels of equity markets.

Since December 31, 2003, AEGON UK has acquired further stakes in distribution companies. These acquisitions did not materially impact fee business net income in 2004.

## NET INCOME

Net income for 2004 of GBP 106 million increased 23% compared to 2003. The effective tax rate of 28% is in line with 2003.

## REVENUES

Revenues of GBP 4,189 million are in line with 2003. The increase in fee and commission revenues is due to growth (including two acquisitions) in revenues from distribution companies.

## COMMISSIONS AND EXPENSES

Commissions and expenses decreased 4% to GBP 426 million in 2004. This is largely due to lower amortization of deferred policy acquisition cost, partially offset by expansion in the distribution companies (including the effect from acquisitions). Both in 2003 and 2004, GBP 10 million of restructuring charges were taken related to expense reduction programs. These restructuring costs resulted from a broad review of all of AEGON UK's operations. The charges arose from the costs of redundancies and the provision for vacant property as a result of the rationalization of accommodation.

Operating expenses decreased 1% to GBP 333 million, including GBP 24 million of cost reductions due to the cost reduction programs, partially offset by restructuring costs and growth in IFAs.

## PRODUCTION

The increase in production of 4% reflects growth in AEGON UK's core individual and group pensions businesses, partly offset by a fall in asset management institutional sales to pension fund trustees.

# OTHER COUNTRIES

## GENERAL

Income before realized gains and losses on shares and real estate amounted to EUR 109 million in 2004, a 43% increase compared to the year 2003. Net income, which includes realized gains and losses on shares and real estate, increased 60% to EUR 91 million.

## OTHER COUNTRIES

INCOME BY PRODUCT SEGMENT	2004 in million EUR	2003 <sup>1</sup> in million EUR	%
Traditional life	19	26	(27)
Life for account of policyholders	5	(14)	
Fee business	6	8	(25)
LIFE INSURANCE	30	20	50
Accident and health insurance	8	7	14
General insurance	71	49	45
INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE	109	76	43
Realized gains and losses on shares and real estate	14	1	
INCOME BEFORE TAX	123	77	60
Corporation tax	(32)	(20)	60
<b>NET INCOME</b>	<b>91</b>	<b>57</b>	<b>60</b>

<sup>1</sup>The numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004

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

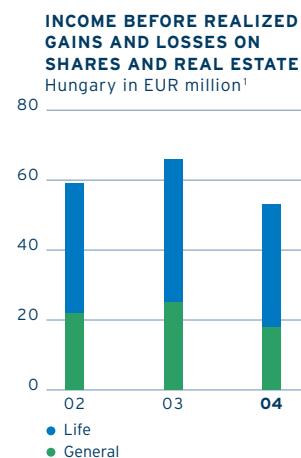
## EXCHANGE RATES

PER 1 EUR	2004	2003
Hungarian Forint (HUF)	252	253
New Taiwan Dollar (NTD)	42	39
Slovakian Koruna (SKK)	39	41
Rin Min Bi Yuan (CNY)	11	10

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

# REVIEW OF OPERATIONS

## OTHER COUNTRIES



<sup>1</sup>The numbers have been adjusted to reflect the effect of changes in accounting principles implemented as of January 1, 2004



### AEGON HUNGARY

#### INCOME BEFORE REALIZED GAINS AND LOSSES

Income before realized gains and losses on shares and real estate amounted to HUF 13.5 billion, a decrease of 19% compared to 2003.

Traditional life results were 33% lower than in 2003, reflecting losses on bonds and a smaller size of the portfolio.

Life for account of policyholder income before realized gains and losses on shares and real estate was 54% higher than last year due to growth in the portfolio, a higher technical result and higher results on expenses. Fee business income increased 6% to HUF 2.2 billion compared to 2003, mainly from growth in the pension fund management business.

Results of the general insurance business were 26% lower than in 2003 mainly from losses on investments and reserves strengthening.

#### NET INCOME

The effective tax rate decreased from 17.1% in 2003 to 14.6% in 2004 due to a reduction in the statutory corporate tax rate. Net income increased from HUF 13.8 billion in 2003 to HUF 14.6 billion in 2004.

### REVENUES

AEGON Hungary's premium income increased by 9% to HUF 66.5 billion in 2004. The 6% increase in recurring life premiums to HUF 37 billion reflects a lower level of surrenders compared to 2003, partly offset by accelerated maturities in the traditional life portfolio and a lower level of policy surrenders. Single life premium amounted to HUF 500 million, HUF 1.1 billion lower than in 2003. Non-life premium income amounted to HUF 29 billion, an 18% increase compared to 2003. AEGON Hungary achieved growth in car insurance while at the same time taking on acceptable levels of risk in the portfolio. Premiums in the car insurance segment increased by 66% and amounted to HUF 6.7 billion over 2004.

Investment income increased by 6% to HUF 17.6 billion. The increase reflects HUF 3.6 billion of realized gains on shares and real estate. Interest rates increased sharply at the end of 2003 and started to decline again in the second half of 2004. The high reinvestment rate had a positive impact on interest income in 2004.

Fees and commissions increased by 27% to HUF 3.6 billion in 2004, reflecting growth in the number of participants in the Pension Fund Management company, partially offset by pressure on fees due to strong competition. The assets managed by the Pension Fund Management company increased by 53% to HUF 173 billion at December 31, 2004.

### COMMISSIONS AND EXPENSES

Commissions and expenses increased by 8% to HUF 21 billion compared to 2003. The increase reflects strong growth in commission on car insurance, inflation and increased expenses from projects.

### PRODUCTION

Standardized new life production decreased by 12% to HUF 4.6 billion, while off balance sheet production increased by 27% to HUF 51 billion on the back of a continued strong expansion of the pension fund management business. The number of pension fund members increased significantly.

### AEGON SLOVAKIA

#### INCOME BEFORE REALIZED GAINS AND LOSSES

Income before realized gains and losses on shares and real estate amounted to a loss of SKK 325 million in 2004, compared to a loss of SKK 200 million in 2003.

### REVENUES

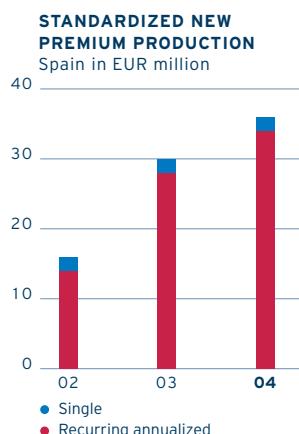
Premium income increased from SKK 5 million in 2003 to SKK 77 million in 2004. Investment income increased by SKK 1 million reflecting interest earned on capital injections.

### PRODUCTION

Standardized new premium production amounted to SKK 133 million compared to SKK 5 million in 2003.



<sup>1</sup>The numbers have been adjusted to reflect the effect of changes in accounting principles implemented as of January 1, 2004



## AEGON SPAIN

### INCOME BEFORE REALIZED GAINS AND LOSSES

AEGON Spain reported income before realized gains and losses on shares and real estate of EUR 65 million over 2004, an increase of 86% compared to 2003. Income before realized gains and losses in the life business amounted to EUR 3.6 million, a decrease of EUR 0.3 million compared to 2003. The non-life business reported income before realized gains and losses of EUR 61 million compared to EUR 31 million in 2003. The increase is mainly due to a refinement in the calculation of technical provisions and an improvement in the claims ratio, which started in 2003 and continued in 2004.

### NET INCOME

Net income amounted to EUR 44 million in 2004 compared to EUR 22 million in 2003. The effective tax rate was 33.3% in 2004 and in 2003.

### REVENUES

Total revenues of EUR 516 million increased by 9% compared to 2003, mainly reflecting higher premium income.

Compared to 2003, life premiums increased by 17%. Recurring premiums increased by 21% due to an increase in production and improved persistency of the portfolio. Single premiums increased

by 5%. Traditional life premium income increased by 34%, while unit-linked premium income decreased, mainly due to the change of the Spanish fiscal regulation that neutralized the tax advantages of these products compared to the investment funds tax treatment.

Non-life premiums increased by 6% compared to 2003. AEGON Spain in 2004 continued to concentrate on personal lines and small companies, while de-emphasizing products which are not considered strategic.

### COMMISSIONS AND EXPENSES

The focus on reduction of expenses continued in 2004, resulting in 1% lower expenses compared to 2003. Expenses in the life business decreased by 13%, whereas expenses in the non-life business increased by 5%.

### PRODUCTION

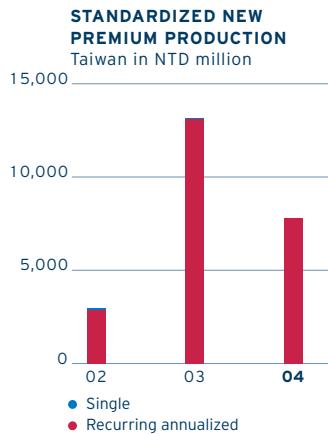
Standardized new premium production increased by 20% to EUR 36 million compared to 2003, primarily by involving the intermediaries network of non-life in the sale of life products.

### OTHER

On December 30, 2004, AEGON N.V. announced that it had entered into an agreement to sell AEGON Seguros Generales, its general insurance subsidiary in Spain, to Italian mutual insurance company Reale Mutua Group effective January 1, 2005. The price of the sale is approximately EUR 250 million and will be fixed at completion. The transaction will result in a book profit of approximately EUR 130 million after tax. The sale is subject to regulatory approval and is expected to be completed in the second quarter of 2005. The proceeds will be used to redeem debt. AEGON's general insurance activities in Spain generated gross premiums of EUR 254 million and pre-tax income of EUR 53 million in 2004. As part of the agreement, AEGON Seguros Generales' distribution network in Spain, which in the transaction will be transferred to Reale Mutua Group, will continue to sell AEGON's life and health insurance products. At the same time, AEGON will acquire the life portfolio of Reale Vida in Spain (with total premium of EUR 14 million in 2004), which will give AEGON access to Reale Mutua's existing agent distribution network. The distribution agreements are on an exclusive basis, valid for five years and renewable thereafter. This transaction reinforces AEGON's strategic focus on its core businesses of life insurance, pensions, savings and investment products. AEGON will continue to expand its life insurance business in Spain by further strengthening its own agent distribution capability, by enhancing its existing bancassurance partnership with Caja de Ahorros del Mediterráneo (CAM) and by pursuing new distribution opportunities.

# REVIEW OF OPERATIONS

## OTHER COUNTRIES



### AEGON TAIWAN

#### INCOME BEFORE REALIZED GAINS AND LOSSES

Income before realized gains and losses of the traditional life segment amounted to NTD 90 million for 2004, compared to a NTD 131 million loss in 2003. The increase is mainly due to higher recurring premiums as a result of higher persistency.

Life for account of policyholder income before realized gains and losses on shares and real estate decreased from NTD 89 million in 2003 to NTD 32 million in 2004, mainly due to higher expenses.

#### NET INCOME

Net income decreased from NTD 57 million in 2003 to NTD 33 million in 2004. For 2004, realized losses on shares and real estate were NTD 90 million, while for 2003 realized gains were NTD 99 million.

#### REVENUES

Gross premium income increased by 39% to NTD 25 billion compared to NTD 18 billion in 2003. The increase reflects strong sales of recurring premium business in 2004 and good persistency. Traditional life insurance gross premiums of NTD 24,261 million increased by 38% compared to NTD 17,517 million for 2003. Variable universal life premiums increased by

83% over 2003 to NTD 710 million driven by the efforts of AEGON Taiwan to promote unit-linked products.

Investment income rose 47% to NTD 918 million in 2004 compared to NTD 623 million in 2003, mainly due to an increase in the asset base. Investment assets increased from NTD 24.6 billion at the end of 2003 to NTD 45 billion at the end of 2004, but the investment yield of 2.7% in 2004 declined from 3.5% in 2003 due mainly to unsatisfactory equity investment performance and a write-down of a defaulted bond.

In May 2004, AEGON Taiwan launched a new variable annuity product, which generated NTD 18 million in fee income in 2004.

#### COMMISSIONS AND EXPENSES

Commissions net of reinsurance commission amounted to NTD 6,044 million for the full year 2004, compared to NTD 4,821 million in 2003. Deferred policy acquisition costs were down 7% to NTD 3,627 million compared to NTD 3,901 million in 2003. Expenses increased 13% to NTD 1,066 million compared to NTD 940 million in 2003, resulting from growth in employees, occupancy and policy related costs in connection with the growth of renewal business volumes. However, the expenses to premium ratio was 3.7% compared to 4.2% in 2003.

#### PRODUCTION

Standardized new life production declined 41% to NTD 7,790 million in 2004. This reflects the industry-wide decrease in traditional life business, while AEGON Taiwan has chosen not to participate in single premium structured notes and interest sensitive annuity products given the inherent risks in those products.

In 2004, AEGON Taiwan started to sell variable annuity products. Deposits amounted to NTD 516 million in 2004.

### AEGON CHINA

#### INCOME BEFORE REALIZED GAINS AND LOSSES

AEGON's share in income before realized gains and losses on shares and real estate amounted to a loss of CNY 41 million in 2004 compared to a loss of CNY 29 million in 2003.

#### EXCEPTIONAL ITEMS

Included in 2004 results is a EUR 218 million expense recorded as an exceptional item in connection with the agreement with Dexia to resolve a dispute over the sale of Labouchere to Dexia in 2000.

#### NON-CONSOLIDATED VENTURES

At the end of the second quarter of 2004, AEGON acquired a 49.9% interest in Caja de Ahorros del Mediterráneo (CAM). AEGON's share in net results since the date of acquisition amounted to EUR 4 million and is reported under results from non-consolidated ventures. CAM is not consolidated in AEGON's results.

AEGON's 20% stake in La Mondiale Participations resulted in an EUR 5 million contribution to the net results in 2004. AEGON increased its share to 35% on December 31, 2004.

The EUR 218 million net income included in non-consolidated ventures in 2003 relates to TFC, which was consolidated as from January 1, 2004.

on an IFRS basis, as well as reconciliations from DAP to IFRS for shareholders' equity and net results.

The key impacts for AEGON are summarized below. It is important to understand that the impact on external reporting does not change the fundamental economic realities of AEGON's business or the way AEGON manages the business.

Key impacts have been derived from accounting policies based on IFRS as at March 31, 2004. These accounting policies may still change due to changes in IFRS up to December 31, 2005. In addition, further reviews, analysis and audit procedures may cause key impacts to change.

#### **KEY IMPACTS**

The conversion from DAP to IFRS will especially affect the following items.

##### **INVESTMENTS, REALIZED GAINS AND LOSSES ON DEBT SECURITIES, BOND DEFAULT RESERVE**

Under DAP, all debt securities were valued at amortized cost. Under IFRS, most debt securities, including bonds and certain loan portfolios, will be valued at fair value. Since the fair value of these debt securities exceeds the amortized costs, AEGON will reflect a credit in shareholders' equity in the Opening Balance Sheet. The way these securities will be classified under IFRS as either 'available for sale' or at 'fair value through profit and loss', determines how unrealized movements in fair value from period to period are recognized, either directly in shareholders' equity or in the income statement respectively.

Changes in fair value of these securities are expected to create a level of volatility in AEGON's shareholders' equity which does not reflect the underlying economics of the business.

To mitigate this anomaly, which is purely accounting driven, if there is a direct link between the measurement of the invested assets and the measurement of the insurance liabilities or related deferred policy acquisition costs (DPAC) and value of business acquired (VOBA) asset, AEGON will adjust shareholders' equity in such a way as if these unrealized movements in fair value had actually been realized. This adjustment is generally referred to as 'shadow accounting'. The default provision that existed under DAP for debt securities will be credited to shareholders' equity in the Opening Balance Sheet. Under DAP interest related gains and losses on debt securities were deferred and released into earnings over the estimated average remaining term to maturity. Under IFRS, gains and losses will be recognized in the income statement when realized. The deferred gains that existed in the DAP balance sheet will be released to shareholders' equity in the Opening Balance Sheet.

##### **TECHNICAL PROVISIONS, DEFERRED POLICY ACQUISITION COSTS, VALUE OF BUSINESS ACQUIRED**

The classification of products that AEGON sells determines the accounting treatment of technical provisions, DPAC and VOBA under IFRS. AEGON's products are either classified as 'insurance contracts', 'investment contracts with discretionary participation features' or 'investment contracts without discretionary

#### **IFRS INTRODUCTION**

From January 1, 2005 onwards, all exchange-listed companies in the European Union are required to prepare their financial statements in conformity with International Financial Reporting Standards (IFRS). Therefore, AEGON will be converting from Dutch Accounting Principles (DAP) as its primary accounting framework to IFRS as of that date.

AEGON's first full set of financial statements under IFRS will be the annual financial statements for the year ending December 31, 2005. The annual financial statements for 2005, as well as the quarterly reporting that will be presented during 2005, will include comparative numbers for 2004 on an IFRS basis. The balance sheet at January 1, 2004, the IFRS 'Opening Balance Sheet', will therefore be the starting point for AEGON to apply IFRS. The difference between assets and liabilities valued on a DAP basis and assets and liabilities valued on an IFRS basis is reflected as an adjustment in shareholders' equity in the Opening Balance Sheet.

It is AEGON's intention to disclose comparative IFRS 2004 figures on April 14, 2005 for both the full year and on a quarterly basis. The IFRS information that will be published will include a condensed balance sheet at January 1, 2004 and at December 31, 2004, quarterly results per line of business by reporting segment

# REVIEW OF OPERATIONS

participation features'. For all products classified as 'insurance contracts' or 'investment contracts with discretionary participation features', AEGON continues to apply current accounting principles. IFRS allows products classified as 'investment contracts without discretionary participation features' to be valued at either fair value or at amortized cost. This choice affects the way DPAC is valued under IFRS. AEGON will value certain portfolios at fair value and others at amortized cost. Overall the DPAC for products classified as 'investment contracts without discretionary participation features' is reduced in the Opening Balance Sheet and the amount of acquisition costs that can be deferred in the future under IFRS will be less than was the case under DAP.

## DEFINED BENEFIT PLANS

For defined benefit plans that are in place for AEGON's own employees, IFRS allows to make use of the so-called 'fresh-start' approach for the Opening Balance Sheet. AEGON elected to make use of this approach and it means that part of the asset that existed in the DAP balance sheet, which related to AEGON USA, will be debited to shareholders' equity in the Opening Balance Sheet. Under IFRS, AEGON will show a liability in Opening Balance Sheet for defined benefit plans that are underfunded and an asset for defined benefit plans that are overfunded.

## DEFERRED TAX

DAP allowed the deferred tax balance to be presented on a discounted basis. Under IFRS this is no longer allowed. For AEGON this means that the deferred tax balance will be increased in the Opening Balance Sheet with a corresponding charge to shareholders' equity.

## DERIVATIVES

Under IFRS all derivatives have to be valued at fair value, with changes in fair value recognized in earnings, unless strict hedge accounting criteria are met and hedge accounting is applied.

## PERPETUAL CAPITAL SECURITIES

AEGON's perpetual capital securities are classified as equity instruments under IFRS, as opposed to debt instruments under DAP. As a consequence, the coupon paid on these perpetuities will be reflected as a direct charge to equity under IFRS whereas for DAP it is a charge in the income statement.

## RESULT ON SALE OF TFC BUSINESSES

The gain on the sale of TFC businesses in 2004, which was credited to shareholders' equity under DAP, will be reflected in the income statement in 2004 under IFRS.

# RISK AND CAPITAL MANAGEMENT

## AEGON CONTINUES TO CLOSELY ALIGN ITS CAPITAL MANAGEMENT WITH RISK MANAGEMENT



# RISK AND CAPITAL MANAGEMENT

## 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, AEGON's largest exposure is to changes in financial markets (e.g. interest rate, credit and equity market risks) that affect the value of the investments and technical provisions (including deferred policy acquisition costs).

AEGON continues to embed advanced risk management techniques in its capital management framework. This process is primarily aimed at achieving further efficiencies in capital management while sharing best risk management practices and improving consistency in internal risk reporting. Similar to 2003, this resulted in a more coordinated and proactive approach towards risk and capital management procedures. AEGON expects this trend to continue with the ongoing international development and advancement of risk management techniques. AEGON continues to stay abreast of regulatory developments, in particular Solvency II, which allows advanced internal risk management models as a basis for capital requirements.

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 current 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.

## DAP-BASED SENSITIVITY ANALYSES

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. These sensitivity analyses are presented on Dutch Accounting Principles (DAP) in

order to permit a consistent comparison with historical financial data. AEGON ceased to apply DAP on January 1, 2005 when it changed its basis of accounting to International Financial Reporting Standards or IFRS. Because AEGON will report financial information for 2005 only under IFRS, the sensitivity analysis included in this section may not reflect the same sensitivities that would result from the application of IFRS. Among other things, the impact of the differences between DAP and IFRS on risk sensitivities is currently expected to be greatest for interest rate changes, equity market changes and relative currency rate movements.

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.

## CURRENCY EXCHANGE RATE RISK

As an international group, AEGON is subject to currency risk. Also, currency risk exists for any policy denominated in currencies other than the policy's local currency. In the Netherlands, AEGON invests the majority of its equity holdings in an internationally diversified portfolio, rather than solely in Dutch equities. Equity held in subsidiaries is kept in local currencies to the extent shareholders' equity is required to satisfy regulatory and self-imposed capital requirements. Because of this, currency exchange rate fluctuations may affect the level of 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 that are targeted 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. AEGON does not hedge the income streams from the

main non-euro units and, as a result, earnings may fluctuate due to currency translation. As AEGON has significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and euro and between the UK pound and euro. AEGON may experience significant changes in net income and shareholders' equity because of these fluctuations.

The five-year historical income before tax and capital in units for AEGON are shown in table 1.

Table 1

Income before tax (in millions)	2000	2001	2002	2003 <sup>1</sup>	2004
AEGON Americas (in USD)	2,710	1,507	349	1,425	2,207
AEGON The Netherlands (in EUR)	1,946	297	(691)	112	720
AEGON UK (in GBP)	221	226	146	120	148
Other Countries (in EUR)	66	70	44	77	123
Capital in units (in millions)					
	2001	2002	2003	2004	
AEGON Americas (in USD)	13,920	16,518	17,491	18,132	
AEGON The Netherlands (in EUR)	3,654	2,605	2,865	3,436	
AEGON UK (in GBP)	1,771	2,028	2,173	2,222	
Other Countries (in EUR)	374	399	481	592	

<sup>1</sup>The 2003 figures have been adjusted to reflect changes in accounting principles implemented as of January 1, 2004.

The exchange rates for US dollar and UK pound per euro for each of the last five year-ends are set forth in table 2.

Table 2

Closing rates	2000	2001	2002	2003	2004
USD	0.93	0.88	1.05	1.26	1.36
GBP	0.62	0.61	0.65	0.70	0.71

The sensitivity analysis in table 3 shows the estimated approximate effects on net income and shareholders' equity of movements in the exchange rates of AEGON's non-euro 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 increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments requiring the sale 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 require 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

Table 3

### SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO CURRENCY EXCHANGE RATE MARKETS<sup>1,2,3</sup>

Movement of markets	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Increase versus the euro of non-euro currencies of 15%	increase between 10% and 11%	increase between 15% and 16%
Decrease versus the euro of non-euro currencies of 15%	decrease between 10% and 11%	decrease between 15% and 16%

<sup>1</sup>The accounting basis used for this table is DAP. The effects should not be used as a guide in providing directional and approximate magnitude impact on net income and shareholders' equity in 2005 since starting January 1, 2005 AEGON adopted IFRS, which differs in significant respects from DAP in its treatment of the consequences of certain events, including interest rate changes, equity market changes and relative currency rate movements.

<sup>2</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>3</sup>The effect of currency exchange rate movements is reflected as a one-time shift up or down in the value of the non-euro currencies versus the euro on December 31, 2004.

# RISK AND CAPITAL MANAGEMENT

proceeds in securities bearing lower interest rates. Also, in a period of low interest rates, AEGON may not be able to reduce crediting rates on policies and still preserve margins as a result of minimum guaranteed crediting rates provided on policies. Accordingly, during periods of sustained low interest rates, net income may decline as a result of a decrease in the spread between either the interest rates credited to policyholders or the rates assumed in reserves and returns on the investment portfolio.

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, 2004. 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 the group level.

For AEGON USA's business, the average duration of assets is approximately 4.3 years. This relatively low duration, as compared to the long-term nature of most of AEGON USA's businesses, is driven by the asset and liability management

process applied to the institutional markets business in the United States (GICs 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 two months. For AEGON The Netherlands, the average duration of assets is approximately 6.9 years. The combined market value weighted duration mismatch of AEGON USA and AEGON The Netherlands was approximately minus 1.0 year at December 31, 2004 (duration of assets is shorter than duration of liabilities).

Table 4 shows each of the last five year-end interest rates for the period from 2000 through 2004.

	2000	2001	2002	2003	2004
3 month US Libor	6.40%	1.88%	1.38%	1.15%	2.56%
3 month Euribor	4.86%	3.29%	2.87%	2.12%	2.16%
10-year US Treasury	5.10%	5.04%	3.82%	4.25%	4.22%
10-year Dutch government	4.99%	5.13%	4.24%	4.29%	3.68%

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

Table 5  
SENSITIVITY ANALYSIS OF NET INCOME TO INTEREST RATES<sup>1,2,3</sup>

Parallel movement of yield curve	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Shift up 100 basis points	EUR (60) million	EUR (60) million
Shift up 200 basis points	EUR (248) million	EUR (248) million
Shift down 100 basis points	EUR (40) million	EUR (40) million
Shift down 200 basis points	EUR (65) million	EUR (65) million

<sup>1</sup> The accounting basis used for this table is DAP. The effects should not be used as a guide in providing directional and approximate magnitude impact on net income and shareholders' equity in 2005 since starting January 1, 2005 AEGON adopted IFRS, which differs in significant respects from DAP in its treatment of the consequences of certain events, including interest rate changes, equity market changes and relative currency rate movements.

<sup>2</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>3</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 December 31, 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	8,814	6,137	233	1,529	14,468
High quality (AAA)	17,748	946	245	137	14,460
High quality (AA)	8,114	668	197	285	7,189
Investment grade (A)	31,674	1,180	903	429	26,145
Investment grade (BBB)	29,661	768	145	31	22,781
High yield (BB+ or lower)	7,088	97	0	6	5,307
Mortgages	14,395	3,782	0	7	14,357
Other	2,647	418	1	54	2,416
Total investments fixed income	120,141	13,996	1,724	2,478	107,123

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 an expected sudden rise in lapse rates on fixed annuities. An immediate decrease of 1% or 2% is also expected to have a negative effect as a result of 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, due to the presence of minimum guarantees, 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 general account products, AEGON typically bears the risk for investment performance – return of principal and interest. AEGON is exposed to credit risk on its general account fixed income portfolio (bonds, mortgages and private placements), over-the-counter derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy or downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in AEGON's major markets resulted in significant investment impairments on AEGON's investment assets due to defaults and overall declines in the securities markets. Although credit default rates were moderate in 2004, a reversion to 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.

AEGON 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 ratings distribution of general account portfolios of AEGON's major country units are presented in table 6 on page 44 by rating category.

Country units apply specific guidelines for the acceptable levels 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. All forms of credit risk are aggregated by counterparty and measured for compliance against country unit credit limits and group-wide credit limits. The group-wide limits are shown in table 7.

Table 7

### AEGON GROUP-WIDE COUNTERPARTY EXPOSURE LIMITS<sup>1</sup> (in EUR millions)

CREDIT RATING	LIMIT
AAA	1,000
AA	1,000
A	750
BBB	500
BB	250
B	125
CCC or lower	50

<sup>1</sup> The fixed income issuer rating is used when applying the 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 practicable 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 195 million to its default provisions during 2004, while EUR 167 million was charged for defaults. Other movements had a positive impact of EUR 53 million on the provision, leaving a balance at year-end of EUR 341 million (2003: EUR 260 million).

### EQUITY MARKET AND OTHER INVESTMENT RISKS

Fluctuations in the equity, real estate and capital markets have adversely affected AEGON's profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where AEGON bears all or most of the volatility in returns and investment performance risk. Significant terrorist actions, as well as general economic conditions, have led to and may continue to result in significant decreases in the value of AEGON's equity investments.

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, 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

# RISK AND CAPITAL MANAGEMENT

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 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 below.

The general account equity, real estate and other non-fixed income portfolio of AEGON Americas and AEGON The Netherlands accounted for 98% of the total general account equity, real estate and other non-fixed income portfolio of the AEGON Group. Of AEGON's country units, AEGON The Netherlands holds the largest amount of 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.

Table 9 sets forth the year-end closing levels of certain major indices.

Table 9

Year-end	2000	2001	2002	2003	2004
S&P 500	1,320	1,148	880	1,112	1,212
Nasdaq	2,471	1,950	1,336	2,003	2,175
FTSE 100	6,222	5,217	3,940	4,477	4,814
AEX	638	507	323	338	348

AEGON's shareholders' equity is directly exposed to movements in the equity and real estate markets. Starting in 2004, AEGON discontinued the indirect income method and instead recognizes realized gains and losses on equities and real estate in income,

which may lead to increased sensitivity of net income to movements in equity and real estate markets. In addition, net income is sensitive to the fees earned on equity investments held for the 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 on page 47.

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's employees 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 these activities successfully through the use of derivatives. In addition, a counter party may fail to honor the terms of its derivatives contracts with AEGON. AEGON's inability to manage risks successfully through derivatives or counterparty's failure to honor its obligations could have a material adverse effect on AEGON's business, results of operations and financial condition.

Table 8

## EQUITY, REAL ESTATE AND NON-FIXED INCOME EXPOSURE IN GENERAL ACCOUNT ASSETS

amounts in millions

ASSETS	AEGON AMERICAS (in USD)	AEGON THE NETHERLANDS (in EUR)	AEGON UK (in GBP)	OTHER COUNTRIES (in EUR)	TOTAL (in EUR)
Equity funds	546	317	41	3	779
Common shares <sup>1</sup>	629	2,541	15	30	3,054
Preferred shares	709	779	0	9	1,309
Real estate	783	1,675	0	50	2,300
Hedge funds	1,481	223	0	0	1,310
Credit investment strategies	306	0	0	0	225
Total equity, real estate and other non-fixed income exposure	4,455	5,534	56	92	8,977

<sup>1</sup> Of the Netherlands common shares, EUR 643 million are invested in a property company and therefore internally viewed as real estate exposure. For the purpose of the sensitivities this exposure is included in the real estate section.

## 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, mortgage 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 fair prices, in a timely manner, or both.

## UNDERWRITING RISK

AEGON's earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions used 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, income would be reduced. Furthermore, if these higher claims were part of a trend, AEGON may be required to increase liabilities, which may reduce income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the balance sheet and are being amortized into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs could be accelerated and may even require write-offs due to unrecoverability. This could have a material adverse effect on AEGON's business, results of operations and financial condition.

Sources of underwriting risk include policy lapses, policy claims such as mortality, and expenses. In general, AEGON is at risk if policy lapses increase as sometimes AEGON is unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality risk, AEGON sells certain types of policies that are at risk if mortality increases, such as term insurance, and sells certain types of policies that are at risk if mortality

decreases such as annuity products. AEGON is also at risk if expenses are higher than assumed by management.

AEGON actively monitors and manages its underwriting risk by each underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. AEGON's units also perform experience studies for underwriting risk assumptions, comparing AEGON's experience to industry experience as well as combining AEGON's experience and industry experience based on the depth of the history of each source to AEGON's underwriting assumptions. Where policy charges are flexible in products, AEGON uses these analyses as the basis for modifying these charges, maintaining a balance between policyholder and shareholder interests. AEGON also has the ability to reduce expense levels thus mitigating unfavorable expense variation.

Sensitivity analysis of net income and shareholders' equity to various underwriting risks is shown in table 11 on page 48.

## NEW PRODUCTS

Regardless of the suitability of products for AEGON's customers, or the adequacy of the disclosure provided to its customers by AEGON and by the intermediaries who distribute AEGON's products, AEGON may face claims from customers and adverse negative publicity if these products result in losses or fail to result in expected gains. New products that are less well understood and that have less of a historical performance track record may be more likely to be the subject of such claims. Any such claims could have material adverse affect on AEGON's results of operation, corporate reputation and financial condition.

## TAX CHANGES

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

Table 10

### SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO EQUITY AND REAL ESTATE MARKETS<sup>1,2,3</sup>

Immediate change in	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Equity increase 10%	EUR 126 million	EUR 371 million
Equity decrease 10%	EUR (96) million	EUR (341) million
Equity decrease 20%	EUR (287) million	EUR (693) million
Real estate increase 10%	EUR 0 million	EUR 176 million
Real estate decrease 10%	EUR (15) million	EUR (176) million
Real estate decrease 20%	EUR (43) million	EUR (352) million

<sup>1</sup>The accounting basis used for this table is DAP. The effects should not be used as a guide in providing directional and approximate magnitude impact on net income and shareholders' equity in 2005 since starting January 1, 2005 AEGON adopted IFRS, which differs in significant respects from DAP in its treatment of the consequences of certain events, including interest rate changes, equity market changes and relative currency rate movements.

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

<sup>3</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 December 31, 2004.

# RISK AND CAPITAL MANAGEMENT

accumulated tax-deferred earnings when earnings are actually paid. The US Congress has, from time to time, considered possible legislation that would eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. In addition, the United States Congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal of the estate tax continues to be discussed, which could have an impact on insurance products and sales in the United States. Recent changes in tax laws in the Netherlands have reduced the attractiveness of certain of 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 other 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.

## 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) of AEGON or any of its rated insurance subsidiaries could, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. This may result in cash payments requiring the sale of invested assets, including illiquid assets, at a price that may result in realized investment losses. These cash payments to policyholders result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause AEGON to accelerate amortization of policy acquisition costs, reducing net income.

In addition, a downgrade may adversely affect relationships with broker-dealers, banks, agents, wholesalers and other distributors of AEGON's products and services, which may negatively impact new sales and adversely affect AEGON's ability to compete and thereby have a material adverse effect on AEGON's business, results of operations and financial condition. Negative changes in credit ratings may also increase AEGON's cost of funding.

During 2004, Standard and Poor's maintained the credit ratings of AEGON N.V. at A+ with a stable outlook. Moody's Investor Service maintained the senior debt rating of AEGON N.V. at A2, and changed the negative outlook to stable. In July 2004, Standard and Poor's changed the outlook on Scottish Equitable's AA rating from negative to stable.

The current S&P and Moody's insurance financial strength ratings and ratings outlook are in shown in table 12.

### INFORMATION TECHNOLOGY

While systems and processes are designed to support complex transactions and to avoid systems failure, fraud, information security failures, processing errors and breaches of regulation, any failure could lead to a material adverse effect on AEGON's results of operation and corporate reputation.

### CATASTROPHIC EVENTS

Natural disasters, terrorism and fires could disrupt AEGON's operations and result in significant loss of property, key personnel and information about AEGON and its clients. If AEGON's business continuity plans have not included effective contingencies for such an event, this could adversely affect AEGON's business, results of operations, corporate reputation and financial condition for a substantial period of time.

Table 11

### SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO VARIOUS UNDERWRITING RISKS<sup>1,2,3</sup>

Underwriting risk sensitivity	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Lapses increase 20%	EUR (62) million	EUR (62) million
Mortality increases 10%	EUR (58) million	EUR (58) million
Mortality decreases 10%	EUR 59 million	EUR 59 million
Expenses increase 10%	EUR (95) million	EUR (95) million

<sup>1</sup>The accounting basis used for this table is DAP. The effects should not be used as a guide in providing directional and approximate magnitude impact on net income and shareholders' equity in 2005 since starting January 1, 2005 AEGON adopted IFRS, which differs in significant respects from DAP in its treatment of the consequences of certain events, including interest rate changes, equity market changes and relative currency rate movements.

<sup>2</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>3</sup>The mortality sensitivities assume that mortality increases or decreases for all products regardless of whether one product produces a gain or loss on the directional change.

Table 12

### RATINGS

	S&P rating	S&P outlook	Moody's rating	Moody's outlook
AEGON USA	AA	Stable	Aa3	Stable
AEGON The Netherlands	AA	Stable	Not rated	Not rated
Scottish Equitable	AA	Stable	A1	Stable

## GOVERNMENT REGULATIONS

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 securities. Changes in existing insurance laws and regulations may affect the way in which AEGON conducts business and the products offered. Changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may adversely affect AEGON's ability to sell new policies or claims exposure on existing policies. Additionally, the insurance laws or regulations adopted or amended from time to time may be more restrictive or may result in higher costs than current requirements.

## LITIGATION

AEGON faces significant risks of litigation and regulatory investigations and actions in connection with 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 2004 financial statements have been prepared and presented in accordance with Dutch Accounting Principles. Any change in these accounting principles, such as the conversion to IFRS as of January 1, 2005, may have a material impact on AEGON's reported results, financial condition and shareholders' equity, including the level and volatility of reported results and shareholders' equity.

## 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 2004, the capital adequacy of AEGON's operating units continued to be strong. All of AEGON's units were capitalized within these tolerances. In the United States, at December 31, 2004, AEGON held 370% of the minimum capital required by the National Association of Insurance Commissioners.

### 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 has managed its capital base to comprise at least 70% shareholders' equity, at least 5% capital securities, and a maximum of 25% dated subordinated and senior debt. At December 31, 2004, AEGON's leverage was within these prescribed tolerances: equity capital represented 72% of its total capital base, while senior and dated subordinated debt comprised 12% of its total capital base. Capital securities accounted for the remaining 16%. In the second half of 2004, AEGON N.V. issued Junior Perpetual Capital Securities in separate tranches of EUR 950 million and USD 500 million to refinance maturing debt and strengthen its capital base. The ratio of shareholders' equity to total capital remains stable at approximately the same level as it was over the year.

# RISK AND CAPITAL MANAGEMENT

In the future, AEGON's capital base may be subject to regulatory requirements arising out of current legislation drafted by the Dutch Government. Under IFRS accounting rules, the composition of reported equity will change and be subject to higher volatility. AEGON will monitor the development of its capital ratios under IFRS, and review the definitions to remain consistent with historical tolerances, if necessary, in an effort to ensure continued strong capitalization.

## SHAREHOLDERS' EQUITY

Shareholders' equity was EUR 14,413 million at December 31, 2004, compared to EUR 13,947 million at December 31, 2003. The increase of EUR 466 million is largely due to the net income of EUR 1,663 million, offset by amongst others, currency translation losses of EUR 775 million and cash dividends of EUR 351 million.

## 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 institutionally targeted debt securities in amounts that are eligible for benchmark inclusion and supports maintenance of liquid secondary markets in these securities. AEGON also aims to maintain excellent access to retail investors, as witnessed by the successful issuance of the Junior Perpetual Capital Securities. AEGON's focus on the fixed income investor base will continue to be supported by an active investor relations program to keep investors well informed on 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 (guaranteed by AEGON N.V.) facilitate access to international and domestic money markets, when required. Additionally, AEGON N.V. utilizes a USD 300 million Euro

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 standing, exceed USD 3 billion. AEGON also has additional credit lines. At December 31, 2004, AEGON N.V. had EUR 2.0 billion outstanding under its Medium Term Notes Program and EUR 95 million under its Commercial Paper Programs.

Operating leverage is not part of the capital base. At December 31, 2004, operating leverage was EUR 1.0 billion (2003: EUR 2.9 billion). Operating debt was reduced during 2004 due to cash proceeds from the sale of the TFC commercial finance and container leasing businesses. This was partially offset by the issuance of EUR 500 million of ten-year fixed-rate notes and EUR 75 million of 15-year fixed-rate notes to finance collateral reserve relief for the AEGON USA reinsurance business, as alternatives to current letter of credit requirements. The remaining operating debt activities primarily relate to the financing of TFC and its subsidiaries.

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.

The duration profile of AEGON's capital debt and interest rate structure is managed in line with the duration of surplus assets related to its investments in its subsidiaries, subject to liquidity needs, capital and other requirements. Of AEGON's total capital debt at December 31, 2004, approximately EUR 0.7 billion matures within three years, EUR 0.9 billion between three and five years, and EUR 1.4 billion thereafter. AEGON believes its working capital, backed by the external funding programs and facilities, is amply sufficient for the group's present requirements.

The Hague, March 2, 2005  
The Executive Board

AEGON AROUND THE WORLD

INFORMATION ABOUT PRODUCTS  
AND COUNTRY UNITS



# AEGON AROUND THE WORLD

## 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	DISTRIBUTION
individuals	(independent) agents
pension funds	brokers
companies	direct response
banks	worksite marketing
	financial institutions

Traditional life products contributed 33% of AEGON's line of business result<sup>1</sup> in 2004 (41% in 2003 and 68% in 2002). 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, Slovakia, Spain, Taiwan and China.

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 withdrawal charges or receive the benefit upon a predetermined 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 premiums, 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 crediting 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.

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 and in the United Kingdom (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, post-retirement annuity products and group risk 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.

AEGON USA offers, as part of the traditional life portfolio, traditional risk and capital management reinsurance, facultative and contract underwriting services, product development services and term insurance wholesaling. Coinsurance and modified coinsurance of fixed and variable annuities are also offered by AEGON USA as part of this portfolio. Client focus for these products is on large, primary insurance carriers and other significant businesses in the financial services arena and reinsurance is also written directly with ceding company clients rather than through brokers.

### FIXED ANNUITIES

CUSTOMERS	DISTRIBUTION
individuals	(independent) agents
pension funds	financial institutions

brokers

direct response

Fixed annuities contributed 14% of AEGON's line of business result<sup>1</sup> in 2004 (15% in 2003 and 3% in 2002). 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 offering discretionary crediting rates for consumers as well as minimum guarantee surrender values and payout options. 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 purchased with a single lump sum premium payment and the benefit payments generally begin within a year after the purchase. Deferred annuities are offered on a fixed or indexed basis with the option of liquidating the contract at any time after the purchase. 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.

<sup>1</sup> Line of business result represents income before realized gains and losses, excluding interest charges and other.

Fixed annuities have a specified crediting rate that can be reset periodically by AEGON.

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

AEGON's operations in the United States sell group and individual fixed annuities and 401(k) contracts to small and medium-sized institutions. Group fixed annuities are purchased with a single premium that funds the annuities for a group of employees. The single premium includes a fee for the administrative services to be provided by AEGON after the annuities are sold.

#### 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 9% of AEGON's line of business result<sup>1</sup> in 2004 (9% in 2003 and 14% in 2002). GICs and FAs are marketed only to institutional investors such as pension funds, retirement plans, college savings programs, money market funds, municipalities and US 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 through an internal sales force in the United States and internationally.

GICs and FAs are spread based products that are generally issued on a fixed or floating rate basis and provide the customer a guarantee of principal and a specified rate of return. 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 13 months.

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.

<sup>1</sup> Line of business result represents income before realized gains and losses, excluding interest charges and other.

#### ACCOUNT OF POLICYHOLDERS

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

#### LIFE FOR ACCOUNT OF POLICYHOLDERS

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

Life products for the account of policyholders contributed 16% of AEGON's line of business result<sup>1</sup> in 2004 (13% in 2003 and 26% in 2002). 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, Slovakia, Spain and Taiwan.

Life products for the account of policyholders include several forms of life insurance and pension products whereby death benefits and cash values vary with the performance of a portfolio of investments and are in some cases protected by guarantees if certain requirements are met. 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), unit-linked, pensions and unitized with-profits life insurance (UK, Hungary, Spain and Taiwan).

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

Tontine plans (the Netherlands) are linked pure endowment savings contracts, with a tontine bonus structure. Policyholders can choose from several funds in which to invest premiums paid. When death occurs before maturity, the tontine plans pay a death benefit equal to the premiums accumulated at 4% compound interest, subject to a minimum of 110% of the fund value during the first half of the contract term. This death benefit is charged on a yearly risk premium basis. The amount of death benefit that is charged for is equal to the total benefit paid to the policyholder plus any unrecouped acquisition costs. When death occurs, the balance in the investment account is not paid out to the policyholder's estate, but is distributed at the end of the year to the surviving policyholders of the specific series (a new series starts at the beginning of each calendar year) to which the

# AEGON AROUND THE WORLD

## PRODUCT LINE OVERVIEW CONTINUED

deceased policyholder belonged. On survival to the maturity date, a benefit equal to the fund value, inclusive of tontine bonuses, is paid out. This amount is at least equal to the premiums paid, providing the Mix Fund was chosen for investing premiums.

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

### VARIABLE ANNUITIES

CUSTOMERS	DISTRIBUTION
individuals	(independent) agents
pension funds	marketing organizations
	brokers
	financial institutions

Variable annuities contributed 7% to AEGON's line of business result<sup>1</sup> in 2004 (3% in 2003 and minus 35% in 2002). Variable annuities are sold to individuals and pension funds through (independent) agents, marketing organizations, brokers and financial institutions in the United States, Canada and Taiwan.

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 and third party providers, including bond and equity funds, and selected by a client based on the client's preferred level of risk. The assets and liabilities related to this product are legally segregated for the benefit of particular policyholders in separate accounts of the insurance company (classified as investments for the account of policyholders). Various riders are available on variable annuity contracts, providing guaranteed minimum death and/or maturity withdrawal or income benefits. The account value of the variable annuities reflects the performance of the funds. AEGON earns mortality and expense charges as well as various types of rider fees for providing various forms of guarantees and benefits, including guaranteed death and income benefits. This category includes the segregated fund products offered by AEGON Canada.

### FEES BUSINESS

CUSTOMERS	DISTRIBUTION
individuals	(independent) agents
pension funds	marketing organizations
asset managers	financial institutions
	direct

Fee business contributed 2% to AEGON's line of business result<sup>1</sup> in 2004 (0.3% in 2003 and 0.0% in 2002). 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, Hungary and Slovakia.

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

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

The operations in the United States provide the fund manager oversight for the Transamerica IDEX Mutual Funds (AEGON USA's mutual funds) 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's US 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. A synthetic GIC helps to reduce fluctuations in the value of the wrapped assets for plan participants and provides book value benefit-responsiveness in the event that qualified plan benefit requests exceed plan 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

<sup>1</sup> Line of business result represents income before realized gains and losses, excluding interest charges and other.

is the means by which investment and benefit responsive experience is passed through to participants. AEGON enters into agreements to provide liquidity for multi-seller asset backed commercial paper conduits and municipal variable rate demand note facilities if there are certain disruptions in the commercial paper or municipal bond markets. These liquidity agreements generally provide for AEGON to purchase non-defaulted assets or provide loans secured by assets from the conduit or facility at market interest rates or better.

AEGON also earns fee income from capital markets transactions such as writing credit default swaps, undertaking synthetic collateralized debt obligations, and providing guarantees of affordable housing tax credits. The buyer of a credit default swap is insured against third party credit losses. If the third party defaults, AEGON will have to purchase the defaulted asset from the insured party and also pay the insured the remaining interest on the debt and the principal.

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, provide asset management services and are involved in intercession activities in real estate. The financial advice activities include selling insurance, pensions, mortgages, financing, savings and investment products. The intercession activities in real estate comprise brokerage activities of residential as well as commercial real estate and real estate management business.

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

AEGON Hungary provides asset management services through its subsidiary AEGON Hungary Investment Fund Management.

#### ACCIDENT AND HEALTH INSURANCE

CUSTOMERS	DISTRIBUTION
individuals	(independent) agents
companies	brokers
	direct marketing

Accident and health insurance contributed 13% to AEGON's line of business result<sup>1</sup> in 2004 (15% in 2003 and 19% in 2002). Accident and health products are sold to individuals and companies through (independent) agents, brokers and direct marketing in the United States, Canada, the Netherlands, Spain (until the end of 2004) and Hungary.

<sup>1</sup> Line of business result represents income before realized gains and losses, excluding interest charges and other.

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

AEGON USA also offers cancer treatment, heart disease policies as well as 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. Sales of long-term care insurance by the Long Term Care Division within AEGON USA will be discontinued in 2005, as announced in 2004.

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

#### GENERAL INSURANCE

CUSTOMERS	DISTRIBUTION
individuals	(independent) agents
companies	brokers

General insurance contributed 5% to AEGON's line of business result<sup>1</sup> in 2004 (3% in 2003 and 4% in 2002). General insurance is sold to individuals and companies through (independent) agents and brokers in the Netherlands and Hungary. AEGON announced in December 2004, that it sold its general insurance business in Spain with effect from January 1, 2005.

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

#### BANKING

CUSTOMERS	DISTRIBUTION
individuals	(independent) agents
companies	direct marketing
	retailers
	franchise organizations

Banking products contributed 1% to AEGON's line of business result<sup>1</sup> in 2004 (1% in 2003 and 0.6% in 2002) and are only sold by AEGON The Netherlands. Distribution channels are direct marketing, (independent) agents and franchise organizations.

# AEGON AROUND THE WORLD

## PRODUCT LINE OVERVIEW CONTINUED

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

### 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 (De Nederlandsche Bank, or DNB) 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 DNB to take into account the relevant financial affiliations between the insurance companies and other entities in the group. In this respect, AEGON is required to submit reports to the DNB 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	Slovakia	Spain	Taiwan	China
Traditional life	■	■	■	■	■	■	■	■	■
Fixed annuities	■	■							
GICs and funding agreements*	■								

### ACCOUNT OF POLICYHOLDERS

Life for account of policyholders	■		■	■	■	■	■	■
Variable annuities	■	■						
Fee business	■	■	■	■	■			
Banking			■					
Accident and health insurance	■	■	■		■	■	■	■
General insurance			■		■			

\* Also distributed internationally from the United States.

EARNS CONTRIBUTION	2004	2003	2002
<b>GENERAL ACCOUNT</b>			
Traditional life	726	778	909
Fixed annuities	313	282	46
GICs and funding agreements	204	164	182
	<b>1,243</b>	<b>1,224</b>	<b>1,137</b>
<b>ACCOUNT OF POLICYHOLDERS</b>			
Life for account of policyholders	355	248	354
Variable annuities	161	60	(469)
Fee business	54	5	0
	<b>570</b>	<b>313</b>	<b>(115)</b>
<b>OTHER ACTIVITIES</b>			
Accident and health insurance	294	275	253
General insurance	107	60	58
Banking	22	20	8
	<b>423</b>	<b>355</b>	<b>319</b>
Interest charges and other	(453)	(429)	(313)
<b>INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE</b>			
	<b>1,783</b>	<b>1,463</b>	<b>1,028</b>

<sup>1</sup> Line of business result represents income before realized gains and losses, excluding interest charges and other.

# AEGON AROUND THE WORLD

## AEGON AMERICAS

### GENERAL HISTORY

AEGON's operations in the Americas comprise AEGON USA and AEGON Canada and are referred to collectively as AEGON Americas. The companies operating in the US are collectively referred to as AEGON USA.

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

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

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

- Life Investors Insurance Company of America
- Monumental Life Insurance Company
- Peoples Benefit Life Insurance Company
- Stonebridge Casualty Insurance Company
- Stonebridge Life Insurance Company
- Transamerica Financial Life Insurance Company, Inc.
- Transamerica Life Insurance & Annuity Company
- Transamerica Life Insurance Company
- Transamerica Occidental Life Insurance Company
- Veterans Life Insurance Company
- Western Reserve Life Assurance Co. of Ohio

The operations in the United States (carried out by the collective group of operating companies in the United States) primarily sell life insurance products. 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 to concentrate health operations in the supplemental coverage sector. The majority of earnings from AEGON's operations in the United States are derived from traditional life products.

Operationally, AEGON's subsidiary companies in the United States contain five operating groups: Agency, Direct Marketing Services, Financial Markets, Institutional Products and Services, and Pension. The group structure enables AEGON USA to manage the organization more efficiently 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 following divisions are part of AEGON's subsidiary companies in the US.

### PRODUCTS AND DISTRIBUTION

#### AGENCY GROUP

The Agency Group divisions offer a wide range of insurance products through agents dedicated to selling AEGON products, as well as independent agents, registered representatives, financial advisors and specialized marketing organizations. The Agency Group targets distinct market segments ranging from lower-income clients to the advanced market that serves clients with higher net worth by providing various tax and estate planning products.

The Agency Group consists of the following:

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

# AEGON AROUND THE WORLD

## AEGON AMERICAS CONTINUED

**Life Investors Career Agents/Independent Producers Group** targets middle to upper-income markets, selling primarily interest-sensitive and ordinary life insurance. Life Investors provides support to establish new agencies and has provided its more than 2,000 agents with quality products, technology tools, and a high level of home office training and support. During the past few years, the Independent Producers Group has seen 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 20,000 independent agents.

**Intersecurities, Inc. (ISI)** is a fully licensed, independent broker-dealer and registered investment advisor. ISI's 1,500 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 465 general agencies and over 70,000 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 over 1,000 representatives. TIIG has a National Accounts initiative 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 has developed relationships with a number of distribution groups, which solely focus on this market. Those groups are Time Financial and a newly formed group called The Plan Group.

**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 lower and middle-income markets, selling individual traditional life and supplemental health insurance through three distinct distribution systems:

Career Agency, PreNeed and Military. Approximately 2,700 agents in 22 states reflect the diversity found in the communities they serve. The career agents provide face-to-face service to the policyholders. The PreNeed unit sells life insurance products through funeral directors and their agents to prefund 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 was integrated with the Transamerica Long Term Care operations. Products are sold directly through independent brokerage agents, captive/career agents and general agents. Sales of long-term care insurance in this division will be discontinued in 2005, as announced in 2004.

**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 telemarketing. Products are also marketed using the endorsement of sponsoring organizations such as financial institutions, auto dealers and various membership associations.

Additionally, ADMS has applied its direct marketing expertise to markets abroad and is doing business in the United Kingdom, 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, national and regional broker-dealers and financial planners in the United States to market fixed and variable annuities, mutual funds, 401(k) plans and life insurance. The bank distribution channel is particularly important to AEGON USA. Working closely with its partners, AEGON USA seeks to customize products and support to help banks expand their relationship with their customers.

**Transamerica Investment Management** is a registered investment advisor and provides investment management services to mutual funds, institutional accounts, pension funds, variable annuity and variable life insurance separate accounts.

**Extraordinary Markets** offers fixed and variable life insurance products to the bank and corporate-owned life insurance market through 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 significantly from year to year.

## **INSTITUTIONAL PRODUCTS AND SERVICES GROUP**

The Institutional Products and Services Group includes AEGON Institutional Markets 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 AEGON Institutional Markets holds the leading market position (source: reports of LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2003 Fourth Quarter Sales, IMD Market Research). IMD has been able to enhance its leadership position through product customization, strong service capabilities and profitable underwriting. IMD's skills in product development, distribution and investment and risk management have resulted in a diversified customer and market base and multi-channel distribution. Building on these skills, IMD is also responsible for a new Structured Products (SP) group. SP is generally involved in capital markets transactions such as writing credit default swaps,

undertaking synthetic collateralized debt obligations, and providing guarantees of affordable housing tax credits. IMD also administers AEGON's block of structured settlement pay-out annuities business. New sales for this product were discontinued in 2003.

**Transamerica Reinsurance** provides traditional risk and capital management, facultative and contract underwriting services and product development services. It also provides coinsurance and modified coinsurance solutions for 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. Transamerica Reinsurance Group distinguishes itself through its knowledge and experience in assessing and pricing mortality risk, underwriting, and private label term services. Transamerica Reinsurance continues to advance its 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 (South 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 100,000 employees and pension assets between USD 5 million and USD 1 billion. These products and services are sold through a variety of intermediaries, including benefit consulting firms, broker-dealers, agents and brokers.

# AEGON AROUND THE WORLD

## AEGON AMERICAS CONTINUED

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

### **REINSURANCE CEDED**

AEGON USA reinsurance portions of its life insurance exposure with unaffiliated insurance companies under traditional indemnity, quota share reinsurance contracts and, in some instances, excess loss reinsurance. 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. To minimize its exposure to reinsurer insolvencies, AEGON USA annually monitors the creditworthiness of its primary reinsurers, and has experienced no material reinsurance recoverability problems in recent years. Where deemed appropriate, additional protection is arranged through letters of credit or trust arrangements and for certain arrangements funds are withheld for investment by the ceding company. AEGON USA insurance subsidiaries also enter into reinsurance contracts with affiliated domestic and offshore companies. These have been eliminated in the consolidated statements, except for certain arrangements that involve producer profit sharing arrangements.

## AEGON CANADA

### GENERAL HISTORY

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

Operations are divided into six business segments:

- life insurance
- segregated funds
- retail mutual funds
- mutual fund dealership services
- retail financial planning services
- investment portfolio management and counseling services

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.

### PRODUCTS AND DISTRIBUTION

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 77 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 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.

**AEGON Fund Management (AFM)** is the mutual fund subsidiary of ACI, offering the imaxx™ brand of mutual funds to Canadian investors seeking customized portfolio solutions, as well as core fund portfolios featuring select investment managers from around the world.

### INVESTMENT PRODUCTS

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

### LIFE INSURANCE PRODUCTS

The Life Products business unit of TLC provides life insurance products for individuals and companies across Canada.

The portfolio includes universal life and traditional life insurance, predominantly term life and permanent life insurance, as well as accidental death and out-of-the-country medical insurance.

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

The key channels of distribution are:

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

# AEGON AROUND THE WORLD

## AEGON THE NETHERLANDS

### GENERAL HISTORY

AEGON Nederland N.V. is the holding company for the AEGON Group's Dutch insurance and banking activities. AEGON's operations in the Netherlands are collectively referred to as AEGON The Netherlands.

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

The primary operational subsidiaries in the Netherlands are:

- AEGON Levensverzekering N.V.
- AEGON Schadeverzekering N.V.
- AEGON NabestaandenZorg N.V.
- AEGON Spaarkas N.V.
- AEGON Bank N.V.
- Spaarbeleg Kas N.V.
- Meeùs Groep B.V.
- TKP Pensioen B.V.
- AEGON Investment Management B.V.

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

As of January 1, 2004, AEGON The Netherlands implemented a new organization structure with five service centers and four marketing and sales organizations. Prior to this reorganization initiative a business unit structure was in place. The five service centers that focus on customer service and the administration of the five main product lines are as follows:

- Service center pensions
- Service center life insurance
- Service center non-life insurance
- Service center banking
- Service center asset management

During 2004, AEGON The Netherlands continued the restructuring process. The product assortment has been reduced and the development of new product propositions is currently underway; integration of the IT systems is in progress and will be completed in phases in 2005 and 2006.

The marketing and sales organizations (MSO) have been structured to serve the different sales channels, such as independent agents, AEGON affiliated organizations and AEGON The Netherlands's own advisors.

The MSO's are:

- **Corporate & Institutional Clients (C&IC)**, which focuses on large companies as well as company pension funds and industry pension funds
- **Intermediary**, which focuses on retail and institutional clients through independent agents
- **Meeùs**, which focuses on the affiliated Meeùs Groep
- **AEGON Spaarbeleg**, which supports AEGON The Netherlands's own advisors as well as direct sales

### PRODUCTS AND DISTRIBUTION

AEGON The Netherlands offers five product lines:

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

While the majority of AEGON The Netherlands products are sold through agents, products are also sold via other channels such as direct marketing, specialized agents and tied agents. Institutional clients and large companies are directly targeted by the marketing and sales organization C&IC.

### PENSIONS

Pension products are mainly sold by C&IC and Intermediary. The 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 Pensioen Pakket (defined contribution)**
- **AEGON Garantie Pensioen (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 The Netherlands 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 The Netherlands 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 The Netherlands.

AEGON Garantie Pensioen and medium and small-sized enterprises growth 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 The Netherlands. Minimum interest guarantees are given for nominal benefits, based on 3% actuarial interest (4% on policies sold before the end of 1999), after retirement of the employee.

In September 2004, AEGON The Netherlands introduced AEGON Persoonlijk Pensioen Plan, an individual pension product based on defined contribution, which targets employees that fall outside a collective pension plan and directors who own a company. Clients can choose from several investment options as well as two options with limited guarantees. The insurance cover is client-specific: the client can select the retirement date and the type of pension.

TKP Pensioen offers administrative services for large pension funds. During 2004, this unit enlarged its base with the acquisition of a large account, which increased the number of participants to a total of 220,000.

#### **LIFE INSURANCE**

The life insurance products are mainly sold by the marketing and sales organization Intermediary and by AEGON Spaarbeleg. The products are predominantly standard financial products; the most important products are discussed below.

**Fund plan and savings plan products.** Fund plan and savings plan products are mainly endowment and savings type products, both single premium and recurring premiums with profit sharing based on the selected fund performance. A customer may choose from a wide variety of AEGON funds. AEGON The Netherlands has issued a guarantee of 3% for investments in the Mix Fund and/or the Fixed Income Fund (4% on policies sold before the end of 1999) at the maturity date if the policyholder has paid the premium for a consecutive period of at least ten years or on death of the insured.

**Endowment and savings products.** Endowment and savings products have recurring premiums with contractual surplus interest profit sharing.

**Mortgage savings products.** AEGON The Netherlands provides mortgage loans to customers for a period of twenty or thirty years. The loan is repaid at the redemption date with, fully or partly, the proceeds from a savings policy. Upon the death of the insured 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 so 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. In case of surrender the policyholder loses the tax benefit.

In October 2004, AEGON The Netherlands introduced AEGON LevenHypotheek, a universal life-based mortgage investment product. The loan is repaid at the redemption date, in full or in part with the proceeds from a savings policy. Upon the death of the insured within the policy contract period, the benefit payment is used to repay the mortgage loan. The customer can choose from six funds in which to invest the savings premiums; two of these six funds offer limited guaranteed benefit payments on maturity date. The ultimate amount available at the maturity date will vary depending on the performance of the underlying funds.

Spaarbeleg Kas N.V. and AEGON Spaarkas N.V. sell life products with both single and recurring premiums and profit sharing based on a specific bonus system (tontine system). The main characteristic of a tontine system is that when the policyholder dies, the balance is not paid out to the policyholder's estate, but is distributed at the end of the year to the surviving policyholders of the specific series (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 and has provided better access to products and services in order to meet consumers' requests with respect to pension issues.

#### **NON-LIFE PRODUCTS**

Non-life insurance products are mainly sold by the marketing and sales organizations Intermediary and Meeùs. Non-life products consist primarily of accident and health and property and casualty. Over the past few years the Dutch government has gradually withdrawn from the sick leave (ziekterverzuim) and workers disability market. In the property and casualty segment, AEGON's strategy is to seek value creation rather than volume.

#### **BANKING**

AEGON Bank N.V. supplies savings accounts with simple conditions. The products are sold through various marketing and sales organizations.

# AEGON AROUND THE WORLD

## AEGON THE NETHERLANDS CONTINUED

### ASSET MANAGEMENT

AEGON Asset Management's (AAM) approach is to further develop the institutional market by winning asset management customers in cooperation with the marketing and sales organization C&IC. AAM is also the asset manager for AEGON The Netherlands' insurance activities.

### ADVICE AND OTHER ACTIVITIES

The distribution units consist primarily of the Meeùs Groep, which is an intermediary company with its core activities in insurance and 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

Reinsurance takes place through a profit sharing contract between AEGON Levensverzekering N.V. and Swiss Re, with a retention of EUR 900,000 per policy with respect to death risk and a retention of EUR 25,000 annually with respect to disability risk.

#### NON-LIFE

With regard to the fire insurance business, an excess of loss reinsurance strategy is in place, with a retention of EUR 5.0 million per risk and EUR 21.0 million per event. The motor business is also reinsured on an excess of loss basis, with a retention of EUR 2.5 million per event.

# AEGON AROUND THE WORLD

## AEGON UNITED KINGDOM

### GENERAL HISTORY

AEGON UK is a leading manufacturer, fund manager and distributor of pension, protection and investment products.

The principal holding company within the AEGON UK Group of companies is AEGON UK plc (AEGON UK), incorporated as a public limited company under the Companies Act 1985 and having its registered office in England. It is a company limited by shares, incorporated on December 1, 1998.

The primary operating subsidiaries of AEGON UK are:

- **Scottish Equitable plc**
- **Guardian Assurance plc**
- **Guardian Linked Life Assurance Ltd**
- **Guardian Pensions Management Ltd**
- **AEGON Asset Management UK plc**
- **AEGON UK Distribution Holdings Ltd**

AEGON UK operates three distinct businesses:

- **AEGON Life and Pensions** – all manufacturing and sales operations relating to investment, protection and pensions markets in the UK. This business primarily operates under the Scottish Equitable brand name
- **AEGON Asset Management** – investment management operations
- **AEGON UK Distribution** – network of distribution intermediary businesses

### PRODUCTS AND DISTRIBUTION

AEGON UK is a major financial services organization specializing in the long-term savings and protection markets. AEGON UK sells primarily through the Independent Financial Advice channel.

### PENSIONS

In June 2004, the UK government announced an increase in the price cap from April 2005 for new stakeholder business to 1.5% for ten years and then 1% thereafter from the previous 1% flat charge. This is expected to reduce margin pressure in this area.

Changes to many aspects of pension legislation and taxation continue to impact the industry. The most significant aspect relates to the introduction of a simpler and unified tax regime, which will apply to all types of pension arrangements. Implementation will occur in April 2006 and the changes will impact all UK pension providers. Reviews of product ranges and supporting infrastructure are underway to ensure that AEGON UK capitalizes on the opportunities presented by this change.

Sales of more specialized pensions have grown significantly over the last few years, particularly in the area of income draw down and phased retirement products. These 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.

The sale of **group pensions** is a prime 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, cash up to the maximum allowed can be taken, with the remainder of the accumulated pension fund used to purchase an annuity or invest in a draw down policy until age 75. 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 existing 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 preagreed proportion of salary costs. Single premium transfers are also common following the initial sale.

High standards of service are a key differentiator in the pensions market, with technology increasingly being utilized to improve efficiency for providers and advisors. An example is Scottish Equitable's market-leading technology solution called SmartScheme, which allows customers and the intermediary to interact with SE online throughout the process.

# AEGON AROUND THE WORLD

## AEGON UNITED KINGDOM CONTINUED

**Individual pensions.** SE also offers a comprehensive range of pension products for individuals. These include stakeholder pensions, pensions for executives and transfers from other schemes and policies allowing an individual to supplement corporate pensions, called free standing additional voluntary contribution plans.

### 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 UK.

**UK bonds.** The bond market in the UK is one of considerable size and is still seen by most financial advisors and product providers as a core part of their business. Onshore bonds offer a tax-efficient method of investing for a wide range of investors.

Scottish Equitable currently offers a range of internally managed funds as well as a comprehensive range of managed funds provided by a range of market-leading fund managers.

**Offshore bonds.** Scottish Equitable International (Dublin) plc is a provider of offshore life contracts. These are sophisticated packaged investment products with tax advantages for clients in the United Kingdom and overseas. The products meet the needs of high net-worth individuals for investment choice and flexibility, inheritance tax planning (in conjunction with trust arrangements) and general tax planning. They are also recommended for investing corporate money.

In 2004, the product range was extended to include the Flexible Investment Plan, that is designed to take regular premiums, and can be used in retirement planning for the high net-worth market. It can be taken out by individuals or be company sponsored.

### INDIVIDUAL PROTECTION

AEGON Individual Protection (AIP) operates in the individual protection market under the brand name of Scottish Equitable Protect. Launched in 2001, Scottish Equitable Protect offers three menu-based products targeted at the personal, mortgage and business protection markets.

A fast growing area within the individual protection market is the ability to transact business electronically and AIP's proposition development is adapting to reflect this. Development of an electronic proposition has been a key focus area for AIP over the last twelve months and will continue to be so throughout 2005, delivering straight-through processing.

### GROUP RISK CONTRACTS

The Employee Benefits business offers a range of corporate risk products to suit the needs of all sizes and types of employers (and their employees) exclusively through independent advisors. AEGON UK's core product lines consists of: group life, group income protection and group critical illness. Each can be bought on a stand-alone basis, or together in the form of a tailored employee benefits package, either on a core or flexible benefits basis. Employee Benefits also has a product aimed specifically at small to medium enterprises called the Employee Protection Menu. This product is purchased by the employer at a predefined cost, and allows each individual employee to select appropriate levels of protection to suit their individual needs.

### LIFE AND PENSION SALES

AEGON UK's principal means of distribution is 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 30,000 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 30 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 over 250 broker-consultants based in the UK, operating out of local branch offices. SE provides support to local IFAs through this branch network in areas such as business development and training.

## MUTUAL FUNDS

**AEGON Asset Management UK (AAM UK)** is a major provider of asset management services both within AEGON UK and to institutional customers and individuals. As of December 31, 2004, AAM UK managed approximately GBP 39 billion of funds, providing both mutual and segregated funds for clients.

AAM UK in the corporate bond market has more than GBP 14 billion invested. A dedicated sales force has been established to exploit this capability with both retail and institutional clients.

## OWNED DISTRIBUTION

In 2002 and 2003, AEGON UK acquired six independent financial advisors in the UK. On May 18, 2004 a new business, Origen, was launched as a result of combining five of these businesses and it will be fully operational during the first quarter of 2005.

Origen delivers advice relating to the financial needs of a range of customers (both individuals and corporates), using a range of distribution methods (primarily face to face but also using media and worksite marketing).

The sixth firm acquired, Positive Solutions, provides management services to self-employed IFAs, using a market-leading technology platform.

## REINSURANCE CEDED

AEGON UK reinsures mortality and morbidity risk where it believes it is prudent and economically sound to do so with a target minimum credit rating requirement of AA by Standard & Poor's for reinsurers to which risk is ceded.

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

# AEGON AROUND THE WORLD

## AEGON HUNGARY

### GENERAL HISTORY

The AEGON Hungary Composite Insurance Company Rt (AEGON Hungary) 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 1940s. AEGON Hungary is a limited liability company. It operates in Hungary and has its head office in Budapest. AEGON Hungary's main operations are life insurance, general insurance and asset management.

AEGON Hungary has four subsidiaries:

- AEGON Hungary Financial Services Rt
- AEGON Real Estate Management Kft
- AEGON Pension Fund Management Rt
- AEGON Hungary Investment Fund Management Rt

AEGON Hungary's operations are organized by sales channels and functional areas. In the second half of 2004 asset management areas and the sales channels were reorganized.

### PRODUCTS AND DISTRIBUTION

AEGON Hungary 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. Strong pension fund sales have played a key role in the sales performance of AEGON Hungary. 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. AEGON Hungary's market share in the household segment is 37% (source: Annual Report of Hungarian Insurance Association, 2003). Margins for household insurance are attractive and present AEGON Hungary 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 product of AEGON Hungary. Therefore pension fund services are also offered. The mandatory and voluntary pension funds of AEGON Hungary are in 2003 among the largest in the country in terms of managed assets and

number of members (source: [www.pszaf.hu](http://www.pszaf.hu)). The pension fund business concentrates its growth strategy on adding new members and taking over other pension funds.

### TRADITIONAL GENERAL ACCOUNT PRODUCTS

Traditional general account products consist mainly of small life policies that were issued before AEGON Hungary 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. AEGON Hungary no longer offers either of these products.

### UNIT-LINKED PRODUCTS

Unit-linked products are the most important products sold by AEGON Hungary and the largest part of AEGON Hungary's new sales is derived from unit-linked products. Unit-linked premiums are invested in various asset funds. AEGON Hungary charges asset management fees, policy fees, front-end-loadings and risk charges to the fund. The unit-linked products cover all types of life insurance (including pension, endowment and savings).

### GROUP LIFE PRODUCTS

Group life products are group life yearly renewable term products with optional accident and health coverage. These products are mainly unit-linked products, sometimes with an interest guarantee.

### ASSET MANAGEMENT

AEGON Hungary also provides asset management services through its subsidiary, AEGON Hungary Investment Fund Management Rt. It offers six mutual funds to the public: domestic bond, domestic equity, international bond, international equity, money market and a mixed fund. AEGON Hungary Investment Fund Management Rt manages the assets in the general account portfolio of AEGON Hungary, the unit-linked portfolios and AEGON Hungary Pension Funds and provides assets management services to third parties. AEGON Hungary Investment Fund Management Rt is responsible for all the investment activities in Hungary and the Central Eastern European region.

## **DISTRIBUTION CHANNELS**

AEGON Hungary's distribution channels comprise a composite network (selling both life and non-life products), a specialized team targeting the Budapest market, independent agents and brokers.

The composite network and the specialized team work with agents. AEGON Hungary also uses alternative channels and partners to increase sales. This approach enabled AEGON Hungary to keep a strong position in pension fund and life insurance new sales in 2004.

The renewed, integrated direct sales and direct marketing operation focuses on core portfolio protection and sale of simple products.

AEGON Hungary also endeavors to develop relationships with banks. AEGON Hungary's current partner banks offer mortgage products, simple savings products and units of AEGON Hungary Investment Fund Management Rt mutual funds to the public.

## **REINSURANCE CEDED**

AEGON Hungary's reinsurance partners are all significant reinsurers in the European and London markets. Only reinsurers with a minimum rating of A (Standard & Poor's) are allowed.

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. AEGON Hungary's catastrophe cover, which protects private homeowners, is significant in the Hungarian market. In addition, AEGON Hungary has smaller treaties for other business lines, such as General Third Party Liability, Marine Cargo and Life & Group Life Business.

The majority of AEGON Hungary's programs are non-proportional Excess of Loss programs, which is in line with AEGON Hungary's strategy to cede only the higher risks or involve the reinsurers in high losses.

## **SLOVAKIA**

On September 2, 2003, AEGON Slovakia was established as a branch office of AEGON Levensverzekering N.V. At the end of October 2004, AEGON Slovakia started its operations. In addition to tied agents, brokers are contracted for product distribution.

AEGON Slovakia offered five basic products (endowment, term fixed, whole life insurance, group life and child) and four riders (accidental death, accidental disability, critical illness and waiver of premium) in 2004. There are four new riders added as of January 1, 2005: a hospitalization rider, an operational surgery rider, a basic accidental rider and an extended accidental rider.

On October 1, 2004, AEGON Pension Fund Management Company (Mandatory Pension Fund) received a licence. The mandatory pension fund market opened on January 1, 2005.

## **CZECH REPUBLIC**

In June 2004, AEGON announced the start of an operation in the Czech Republic. After the required registration of the operating company with the Czech Commercial Register in September 2004, AEGON applied for a licence with the Czech Ministry of Finance. It is expected that the license will be received in the first half of 2005.

# AEGON AROUND THE WORLD

## AEGON SPAIN

### GENERAL HISTORY

In 2004, AEGON operated in Spain through three insurance companies: AEGON Seguros Generales, AEGON Seguros Salud and AEGON Seguros de Vida. These companies are held by one holding company, AEGON España SA, an economic interest grouping which provides administrative and operational services to the various insurance companies.

AEGON entered the Spanish market in 1980 by acquiring Seguros Galicia. This was followed by the acquisition of Union Levantina in 1986, Union Previsora in 1987, Labor Médica, La Sanitaria and Caja de Previsión y Socorro in 1996 and Covadonga at the end of 1999.

In 2004, AEGON Spain set up a strategic partnership with Caja de Ahorros del Mediterráneo (CAM). This partnership combines CAM's significant customer reach through its banking network with AEGON's expertise in life insurance and pensions.

On December 30, 2004, AEGON announced the sale of Seguros Generales to Reale Mutua Group (Reale). As part of the agreement, AEGON Seguros Generales' distribution network in Spain will continue to sell AEGON's life and health insurance products. At the same time, AEGON will acquire the life portfolio of Reale in Spain, which will give AEGON access to Reale's existing agent distribution network, valid for five years and renewable thereafter.

AEGON Spain will continue to expand its life insurance business strengthening its own agent distribution capability, by enhancing its existing bancassurance partnership with CAM and by pursuing new distribution opportunities.

### PRODUCTS AND DISTRIBUTION

Over the past several years, AEGON Spain has focused on life insurance business for growth in the portfolio. By marketing unit-linked variable life products to professionals through multiple distribution channels, it made significant inroads into a market, which has been traditionally dominated by banks.

The focus of AEGON Spain is on the individual consumer segment. In life insurance, AEGON Spain's principal lines of business are traditional life and unit-linked insurance products. The main general insurance products are motor and fire insurance. These products are distributed exclusively through the agency channel, using a network of agents and brokers.

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. Group life products are distributed through banks and financial institutions as well as through brokers and specialized agents.

The distribution agreement reached with Reale will provide AEGON Spain with exclusive access to a broader agents distribution network in 2005.

### REINSURANCE CEDED

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

# AEGON ASIA

## AEGON 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 comprised of 55,000 policies of American Family Life Assurance Company Taiwan. In 1999, the Transamerica Taiwan branch was added to AEGON's business as a result of AEGON's acquisition of Transamerica. The integration with the existing operations was completed in 2001. At the end of 2001, AEGON Taiwan acquired a block of business comprised of 57,000 policies of National Mutual Life Association of Australia, AXA's Taiwan life operation.

### PRODUCTS AND DISTRIBUTION

AEGON Taiwan offers a broad range of insurance products meeting a variety of consumer needs, including whole life, endowment life, term life, accident and supplemental health, variable universal life, annuities, group life and health, as well as a range of policy riders. Variable universal life, introduced in April 2002, is one of the major products in the agency channel. In 2003, new product initiatives included an updated version of the whole life product series. Furthermore, AEGON Taiwan launched an innovative variable annuity product in 2004, targeted at long-term savings and retirement planning. Both products are sold through multiple distribution channels.

The agency channel consists of a network of over 500 full-time professional career agents operating from 26 offices throughout Taiwan. The agency channel's business is a mix of traditional and variable life insurance. The brokerage channel mainly sells whole life business written by independent agents. Whole life products are also sold via the bank channel. In group business, AEGON Taiwan provides protection through yearly renewable life, accident or medical insurance to employees of its corporate clients.

Over the past two years, distribution through brokerage and bancassurance has resulted in substantial growth in new business volumes and accounts for the majority of AEGON Taiwan's total new business premiums.

### REINSURANCE CEDED

AEGON Taiwan has its mortality and morbidity risks reinsured by international reinsurers as well as the local Central Reinsurance Company. All of them carry a rating of 'A-' or higher. The reinsurance covers both excess surplus risks and catastrophic concentration risks.

# AEGON AROUND THE WORLD

## AEGON ASIA CONTINUED

### CHINA

#### GENERAL HISTORY

AEGON-CNOOC Insurance Co., Ltd. (AEGON-CNOOC) is a 50/50 joint venture established in Shanghai, People's Republic of China by China National Offshore Oil Corporation and AEGON. After a 12-month preparatory period, AEGON-CNOOC commenced its operations in Shanghai in May 2003. AEGON-CNOOC is licensed to sell both traditional life insurance products as well as accident and health products in mainland China.

On December 1, 2004, AEGON-CNOOC received a license from the regulatory authorities to start life insurance activities in Beijing, which will be the first branch of AEGON-CNOOC. The branch is scheduled to open in May 2005.

#### PRODUCTS AND DISTRIBUTION

During its first eighteen months of operation, AEGON-CNOOC successfully established multiple distribution channels, including the agency channel, the bancassurance channel and the telemarketing channel. In addition, AEGON-CNOOC started distribution via the brokerage channel, which is targeted to become a key source of business in the near future.

In October 2004, AEGON-CNOOC signed a national cooperation agreement with the Agricultural Bank of China (ABC). ABC is one of the 'Big Four' banks in China. Through this agreement, AEGON-CNOOC will provide a broad range of life and accident and health insurance services to ABC's customer base. ABC will provide AEGON-CNOOC with payment and cash management services.

The product portfolio of the agency channel consists primarily of traditional life products, such as level whole life, coupon whole life, endowment life and term life as well as short-term accident and long-term health products. The most important product for the bancassurance channel is a single premium short-term endowment product. AEGON-CNOOC is also planning to develop more regular premium products for the bancassurance channel in the near future. The major product for the telemarketing channel is a yearly-renewable personal accident product.

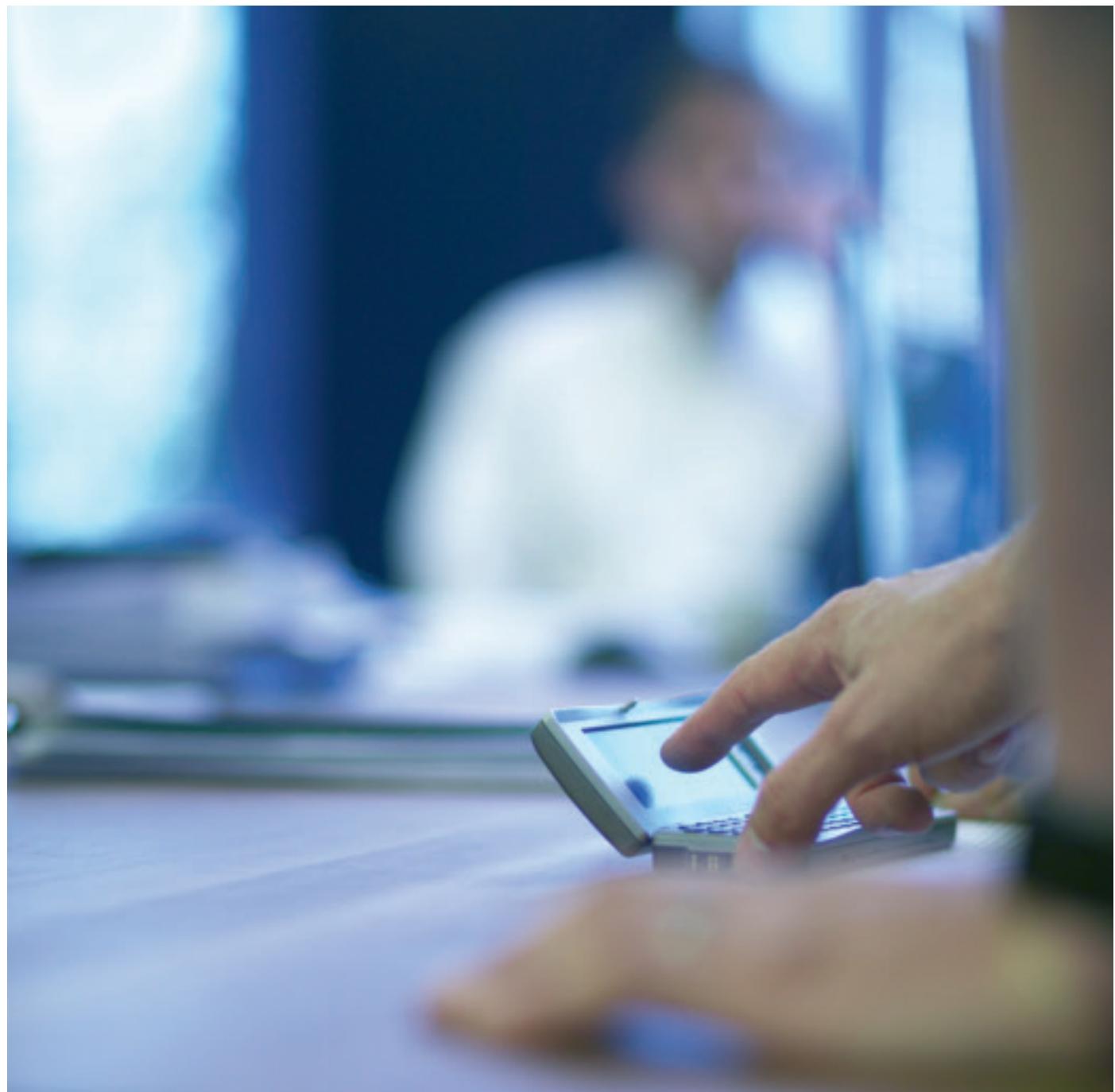
#### REINSURANCE CEDED

According to the regulations of the China Insurance Regulatory Commission (CIRC), AEGON-CNOOC cedes a quota share of accident and health business to the China Reinsurance Company.

In addition, AEGON-CNOOC enters into several commercial reinsurance arrangements to achieve a diversification of risks and limit the maximum loss on risks that exceed policy retention limits.

## CORPORATE GOVERNANCE

AEGON IS COMMITTED TO THE HIGHEST  
STANDARDS OF TRANSPARENCY



# CORPORATE GOVERNANCE

AEGON N.V. is a public company under Dutch law and it 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, which include 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 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 (including electronically embedded proxies), provided the shareholder complies with the applicable statutory provisions for providing of evidence of shareholders' status or notification of the intention to attend the meeting. When convening 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 of Shareholders.

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 the New York Registry 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 Vereniging AEGON, in its sole discretion, has determined that a special cause has occurred and then only limited to a period of six months per special cause. In this respect reference is made to the section on Vereniging AEGON on page 146 in this annual report's Financial Statements.

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. The members of the Executive Board are appointed by the General Meeting of Shareholders upon the nomination of the Supervisory Board.

Members of the Executive Board are eligible for retirement upon reaching the age of 60. Retirement is mandatory 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 members of the Supervisory Board are appointed by the General Meeting of Shareholders upon the nomination of the Supervisory Board. The Supervisory Board currently consists of ten 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, except with the approval of the Supervisory Board. The remuneration of the members of the Supervisory Board is fixed by the General Meeting of Shareholders.

# DUTCH CORPORATE GOVERNANCE CODE

In December 2003, the final version of a new Dutch Corporate Governance Code was adopted. The code came into effect on January 1, 2004.

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.

## AEGON AND CORPORATE GOVERNANCE

Subsequent to the publication of the definitive Dutch Corporate Governance Code AEGON initiated a review process aimed at implementing the code in the company's corporate governance. In the 2003 annual report AEGON provided an overview specifically indicating where its corporate governance was already compliant with the code. To the extent that AEGON did not fully comply with best practice provisions of the Dutch Corporate Governance Code, the reasons therefore were explained.

The chapter on AEGON's compliance with the code has been discussed as a separate item during the annual General Meeting of Shareholders held on April 22, 2004. Following the annual General Meeting of Shareholders AEGON has taken further steps to implement the code.

This chapter is intended to provide a comprehensive description of AEGON's compliance with the code as at the end of 2004. Those instances in which AEGON does not fully comply with the code are explained. This chapter will be discussed as a separate item on the agenda of the General Meeting of Shareholders to be held on April 21, 2005. In addition, this chapter outlines the proposals that will be made to the General Meeting of Shareholders at that time that are aimed at implementing changes to AEGON's Articles of Incorporation in line with the code.

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 dealing with corporate governance that are typically included in the annual report have been expanded in the annual report over the financial year 2003 to include a more comprehensive overview of the corporate governance structure. Recommendations as to how AEGON has proposed implementing the code are further specified. This report contains an update of this overview. Starting with the 2005 annual report, and in line with the recommendations of the code as well as the government regulations based thereon, the annual reports will include a

separate chapter outlining in general terms AEGON's corporate governance structure and describing AEGON's application of the principles and best practice provisions of the corporate governance code. This chapter will also detail those areas in which AEGON does not follow the code and the reasons therefore.

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.

## EXECUTIVE BOARD

The current members of the Executive Board are appointed for an indefinite term. The Supervisory Board has agreed with the Executive Board and its individual members on a reappointment and retirement schedule for members of the Executive Board. Pursuant to this retirement schedule, (available at [www.aegon.com](http://www.aegon.com)), the Supervisory Board intends to propose to the annual General Meeting of Shareholders in 2005 that the chairman of the Executive Board, Don Shepard, and the CFO, Jos Streppel, be appointed for a four-year term. Moreover, the other members of the Executive Board, Johan van der Werf and Alex Wynaedts, are eligible for reappointment in 2006 and 2007 respectively. It is proposed that the Articles of Incorporation be amended to reflect that appointments to the Executive Board be for four-year periods, subject to reappointment. 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.

Special attention is paid to risk management and risk factors. In each of its country units, and at group level, AEGON has established an Internal Audit Department responsible for performing an annual risk assessment and conducting audits as necessary to evaluate the effectiveness of the design and operation of the internal controls. AEGON established the Group Risk and Capital Committee at group level. This is in addition to the pre-existing risk management systems established at country unit level. The objectives of the Group Risk and Capital Committee include monitoring AEGON's overall risk exposures as well as making recommendations and overseeing remedial action where exposures are deemed excessive. Moreover, this committee is responsible for 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 preparation for the formal attestation over the financial year 2006 under section 404 of the Sarbanes Oxley Act 2002 (SOX 404), the Executive Board has established a group wide framework to document, evaluate and report on the effectiveness of the internal controls over the financial reporting process. The scope of the Sarbanes-Oxley Act compliance work

# DUTCH CORPORATE GOVERNANCE CODE

covers an extensive range of business processes supporting the financial reporting process. In this context the COSO framework is applied. Based on these activities the Executive Board believes, to the best of its knowledge, that it can assert with reasonable assurance that the internal risk management and control systems were effective during 2004. However, the design and effectiveness of the risk management and control systems remain subject to continuous improvement. Since the internal control systems throughout the whole organization are currently under review in view of the future obligations pursuant to SOX 404, the above statement does not imply an assessment as required by SOX 404.

AEGON has adopted a Code of Conduct at group level. The Code of Conduct is monitored and implemented by a taskforce that reports directly to the Executive Board. This is in addition to the Codes of Conduct adopted earlier by the majority of AEGON's country units. The Code of Conduct includes whistleblower provisions, that give employees the ability to report on suspected irregularities without jeopardizing their positions. More detailed rules and regulations regarding the reporting of financial complaints have been implemented in the form of the financial complaints procedure that provides for reports to the Audit Committee. 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).

AEGON's annual report includes information about the most important external factors and variables influencing the results of the company. These sensitivity analyses customarily provided 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.

None of the members of the Executive Board is a member of the Supervisory Board of more than two Dutch listed companies nor is a chairman of the Supervisory Board of a listed company. The Executive Board Rules, as posted on AEGON's website, provide that any appointment of members of the Executive Board as a supervisory or non-executive director of another listed company is subject to the prior approval of the Supervisory Board. Moreover, the Executive Board Rules provide that members of the Executive Board intending to accept any other important position will notify the Supervisory Board prior to acceptance of such position.

## REMUNERATION

On the advice of the Compensation Committee, the Supervisory Board has proposed amendments to the Remuneration Policy in 2003. This Remuneration Policy has been adopted by the General Meeting of Shareholders on April 22, 2004 and will be in place for a period of three years (2004-2006). AEGON places a high

importance on attracting and retaining qualified directors and personnel, while at the same time safeguarding and promoting AEGON's medium- and long-term interests. The Remuneration Policy for members of the Executive Board is reflective of these objectives. It is designed to support AEGON's strategy for value creation and shareholder alignment, as well as establishing standards for evaluating performance and business results. In addition, the Remuneration Policy 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.

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 criteria relating to the value of new business and total shareholder return. For more details on the remuneration of the members of the Executive Board, please refer to the chapter on Remuneration on page 14 and following of this annual report.

The Remuneration Policy also includes a plan for members of the Executive Board to be remunerated partly in stock options (performance options) and performance shares. If members of the Executive Board are entitled to stock options, these options are granted solely in reference to the AEGON share price on Euronext Amsterdam at the close of trading on the date of the granting of options. The terms under which stock options and performance shares 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.

Any performance shares granted must be retained for a period of at least five years from the date of the grant, or until at least the end of the employment, if the latter period is shorter.

The Supervisory Board has decided that it 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 termination and be limited to 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 order to respect the existing employment agreements with the current members of the Executive Board and given the fact that employment conditions in the United States vary with those in the Netherlands, the Supervisory Board has agreed with the members of the Executive Board not to amend the existing arrangements with regard to severance payments with current members of the Executive Board. The employment agreements of the members of the Executive Board can be found on AEGON's website, [www.aegon.com](http://www.aegon.com).

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

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

AEGON's Remuneration Policy was adopted at the General Meeting of Shareholders on April 22, 2004. Any future material changes to the Remuneration Policy will also be submitted to the General Meeting of Shareholders for adoption.

In its remuneration report, included on pages 14-16 of this annual report, the Supervisory Board has accounted for the manner in which the Remuneration Policy regarding members of the Executive Board has been applied. In addition, each year the annual report provides an overview of the then current Remuneration Policy for the near future. The Remuneration Policy for the years 2004-2006 is included in this annual report. The remuneration report is posted on AEGON's website [www.aegon.com](http://www.aegon.com). The principal points in the remuneration report are mentioned in the report of the Supervisory Board.

The remuneration of the individual members of the Executive Board is 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 the member shall be made public.

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

#### **CONFLICTS OF INTEREST**

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.

More detailed regulations regarding conflicts of interest between members of the Executive Board and AEGON are included in the Executive Board Rules. Any transactions in which there are conflicts of interest shall be agreed on terms customary in the industry and are published in the annual report.

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 have drawn up a protocol which provides that the members of the Executive Board who also serve on the executive committee of Vereniging AEGON shall continue to participate in discussions and decision making relating to possible transactions with Vereniging AEGON. The Supervisory Board is confident that by adhering to this protocol the deemed conflict of interests with Vereniging AEGON are adequately dealt

with and that the best practice provisions of the code have been complied with in all material respects. The protocol is posted on AEGON's website.

As has been customary in the past, all transactions between AEGON and Vereniging AEGON will be agreed upon according to terms customary in the industry and are published in the annual report.

#### **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 have been further refined in light of 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. The regulations applicable to members of the Executive Board and the Supervisory Board are posted on AEGON's website.

#### **SUPERVISORY BOARD**

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

The Supervisory Board is responsible for decisions relating to the resolution of 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. 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 Supervisory Board Rules, the Supervisory Board is empowered to obtain all information they deem necessary for the performance of their duties, including the right to obtain information from officers of the company and external experts.

The Supervisory Board Rules 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. These regulations are posted on AEGON's website.

The Supervisory Board shall continue its existing practice to include a detailed account of its activities in the relevant financial year in each annual report. This will also include the information prescribed in the Dutch Corporate Governance Code. The report includes appropriate reference to the subjects discussed within the Supervisory Board during the relevant year.

#### **INDEPENDENCE**

The current composition of the Supervisory Board is in compliance with the best practice provisions of the Dutch Corporate Governance Code regarding the independence of

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supervisory directors. The sole member that does not qualify as 'independent' within the meaning of these provisions is Mr. K.J. Storm who served as chairman of the Executive Board immediately prior to his appointment as a member of the Supervisory Board in 2002.

## EXPERTISE AND COMPOSITION

The members of the Supervisory Board are appointed by the General Meeting of Shareholders. For the purpose of making nominations to 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 what is required of individual members. This profile also reflects the detailed composition requirements of the Dutch Corporate Governance Code.

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 that an individual member will be designated to fulfill. 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 is 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.

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, and to those pertaining to AEGON specifically, as well as general legal affairs of the group. The Supervisory Board regularly discusses whether there are any areas in which its members require further training.

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 currently holds more than the maximum number of Supervisory Board positions with Dutch listed companies (including chairmanships) set forth in the Dutch Corporate Governance Code. Mr. Tabaksblat is not available for reappointment upon the end of his current term in 2005 since he will have reached the maximum of three four-year terms specified in the Dutch Corporate Governance Code. Consequently, he will step down at the annual General Meeting of Shareholders to be held on April 21, 2005.

In accordance with the Code the Supervisory Board Rules provide that no member can serve on AEGON's Supervisory Board for more than three four-year terms. However, the

Supervisory Board has decided to request Mr. Olcay to complete his current term in office despite the fact that he will in 2005 have served more than the maximum term allowed by the Dutch Corporate Governance Code. The Supervisory Board has determined that given the high number of vacancies recently filled and yet to be filled, it is prudent to request Mr. Olcay to serve on the Supervisory Board until the end of his current term in office in the interest of continuity.

Moreover, the Supervisory Board Rules provide that a member of the Supervisory Board shall resign if the Supervisory Board has resolved that such a member is no longer fit to function due to inadequate performance, fundamental differences of opinion or other impeding circumstances.

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

In accordance with the Supervisory Board Rules, the chairman is responsible for overseeing the day-to-day functions 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.

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 Supervisory Board Rules. The appointment of the company secretary is subject to the approval of the Supervisory Board.

## 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 maintains four standing committees that are comprised of 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.

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 defined. The committee charters are available on AEGON's website.

The report submitted annually by the Supervisory Board (which is part of the annual report) includes information on the activities of each of the committees. This report also lists the members of each committee.

## AUDIT COMMITTEE

The Audit Committee 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, and (5) advising on and monitoring the financing of AEGON and its finance related strategies. The Audit Committee is chaired by Mr. Eustace. The Audit Committee has determined that its composition satisfies the criteria of independence specified by the New York Stock Exchange as well as the provision of the code and the United States Sarbanes-Oxley Act that at least one financial expert sits on the Audit Committee. 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.

#### **COMPENSATION COMMITTEE**

The purpose of the Compensation Committee 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. Dahan. 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.

#### **NOMINATING COMMITTEE**

The purpose of the Nominating Committee is to advise the Supervisory Board on candidates for the Supervisory Board for a first appointment to fill a vacancy as well as on the reappointment of members of the Supervisory Board after each four-year term. The advice of the Nominating Committee shall be based on the profile for the Supervisory Board as it shall be in place from time to time. 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. Mr. Eustace will succeed Mr. Tabaksblat effective the annual General Meeting of Shareholders on April 21, 2005, subject to Mr. Eustace being reappointed by the shareholders.

#### **STRATEGY COMMITTEE**

The Strategy Committee is responsible for 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 as well as considering the material aspects relating to the implementation of the agreed strategy. Finally, the Supervisory Board acts as a consultative body to the Executive Board with regard to its strategy. The Strategy Committee is chaired by Mr. Tabaksblat. Mr. Eustace will succeed Mr. Tabaksblat as chairman of the Strategy Committee effective after the annual General Meeting of Shareholders on April 21, 2005, and subject to Mr. Eustace being reappointed by the General Meeting of Shareholders.

#### **CONFLICTS OF INTEREST**

Rules regarding conflicts of interest applicable to members of the Supervisory Board are included in the Supervisory Board Rules. These rules are compliant with the relevant provisions of the Dutch Corporate Governance Code and have been posted on AEGON's website.

#### **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.

#### **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 & Investor Relations. One of the key opportunities for 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.

The Supervisory Board and Executive Boards welcome increased shareholder participation. It is further proposed to the General Meeting of Shareholders that further amendments be made to the Articles of Incorporation that would require certain resolutions of the Executive Board that entail significant changes to the identity or character of AEGON or its business be subject to the approval of the General Meeting of Shareholders.

AEGON has preferred shares class A and preferred shares class B, all of which are held by Vereniging AEGON. The capital contribution made on the preferred shares class A is reflective of the market value of AEGON's common shares at the time the capital contribution was made.

Currently, Vereniging AEGON holds 16,900,000 preferred shares class B, representing approximately 1.0% of voting shares

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under normal 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 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 2.08 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 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 legislature and which should be taken into consideration when drafting a law on anti-takeover measures.

The Articles of Incorporation of AEGON 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 on May 9, 2003. This qualified majority requirement was included in order to give AEGON a temporary protection against unfriendly actions by a hostile bidder for example. Effectively, these provisions provide Vereniging AEGON a period of six months during which time it can block any unfriendly attempts to replace the Supervisory Board and the Executive Board.

The Supervisory Board and the Executive Board have evaluated the provisions in AEGON's Articles of Incorporation containing the qualified majority requirements in light of the provisions of the Dutch Corporate Governance Code. They have evaluated these requirements in the context of the absence of anti-takeover protection and concluded that the qualified majority requirements (in light of the voting rights of Vereniging AEGON) are an integral part of AEGON's protection against unfriendly actions. Taken together the qualified majority requirements and the voting rights of Vereniging AEGON constitute the only protection AEGON currently has in place.

The protection thus accorded is in line with accepted market practice.

For the purpose of further mitigating the possible negative effects of the qualified majority requirements in the ordinary course the Supervisory Board has decided that, absent unfriendly actions, it shall make nominations to the Executive Board and the Supervisory Board only on a non-binding basis. This will allow the shareholders the opportunity to decide on the nomination with a simple majority. Thus for all practical purposes the relevant principle and the relevant best practice provision are complied with. The preferred shares voting agreement entered into between AEGON and Vereniging AEGON, as further described above, clearly sets out those circumstances in which the protection may be invoked and a special cause may be declared.

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.

AEGON's policy on profit appropriation (additions to reserves and on dividends) shall be discussed and accounted for 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.

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.

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

## 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 AEGON is listed. Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the company's website and by means of press releases. All presentations made on these occasions are posted on AEGON's website. In accordance with market practice, the company uses various press information services to distribute its press releases.

All communications and filings are supervised by the Disclosure Committee instituted by AEGON in compliance with the United States' Sarbanes-Oxley legislation. These communications and filings are made available on AEGON's website.

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 their publication.

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, those reasons will be substantiated.

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).

As a general rule, the report of the General Meeting of Shareholders shall be made available, upon request, to the shareholders not later than three months after the meeting. Shareholders are 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 is posted on AEGON's website.

#### **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 while also honoring the responsibility to the ultimate beneficiaries and investors in the companies in which it has invested.

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. AEGON Nederland N.V. has published 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 is also published on its website. At a minimum, this record shall be updated on a quarterly basis.

#### **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 through 2004 a thorough review of its internal procedures relating to the composition, preparation and publication of its financial reporting. The Executive Board has instituted procedures aimed at ensuring that major financial information is delivered to the Executive Board in an orderly and timely fashion. The Executive Board receives the financial information from the country units directly. The Supervisory Board, acting primarily through the Audit Committee, supervises the compliance with these internal procedures and the external information. Specific regulations dealing with the internal control function have been documented in the Audit Committee Charter and accompanying attachments.

##### **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.

The independent auditor is appointed annually by the shareholders at the annual General Meeting of Shareholders. The shareholders will be given the opportunity to question the independent auditor at the General Meeting of Shareholders in relation to his or her statement on the fairness of the annual accounts.

The Executive Board and the Audit Committee report annually to the Supervisory Board on their dealings with the independent auditor, particularly with regard to 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.

##### **INTERNAL AUDITOR FUNCTION**

In 2003, AEGON appointed an internal auditor on group level who reports 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 determined 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.

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## 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.

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.

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 Audit Committee Charter such issues include significant financial reporting issues and judgments 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.

## CONCLUSIONS

From the foregoing it follows that AEGON complies with the principles of the Dutch Corporate Governance Code. Moreover, AEGON generally also applies the best practice provisions of the Code. Where AEGON does not apply the best practice provisions, the reasons have been stated at the appropriate place. In those limited cases where AEGON does not apply the best practice provisions, AEGON follows the spirit of the Dutch Corporate Governance Code as much as possible.

In summary:

- II.2.7: this best practice provision provides that the maximum remuneration in the event of dismissal is one-year's salary. AEGON will apply this best practice provision to any future appointments to the Executive Board. The existing employment agreements with the current members of the Executive Board, the severance arrangements to which current members of the Executive Board are entitled are not in line with this best practice provision.
- II.3.3. this best practice provision provides that a member of the Executive Board may not take part in discussions and decision making that involves a subject or transaction in relation to which he or she has a conflict of interest. Given the position of AEGON's CEO and CFO on the executive committee of AEGON's largest shareholder, Vereniging AEGON, this could technically give rise to a deemed conflict of interest. The Supervisory Board has determined that also given the historic relationship with Vereniging AEGON it is not in the best interests of AEGON that the CEO and CFO would be precluded from participating in discussions and decision making relating to Vereniging AEGON. For this reason a protocol was drafted authorizing the CEO and CFO to continue the existing practice in dealing with Vereniging AEGON.
- III.3.5: this best practice provision provides that a person may be appointed to the Supervisory Board for a maximum of three four-year terms. The Supervisory Board has asked Mr. Olcay to complete his current term, thus exceeding the maximum stated in the code;
- IV.1.1: this best practice provision provides that the General Meeting of Shareholders may pass a resolution cancelling the binding nature of a nomination for appointment of a member of the Executive Board or the Supervisory Board by an absolute majority and a limited quorum. The current Articles of Incorporation of AEGON provide for a larger majority and a higher quorum than prescribed by the Code. As indicated above, the Supervisory Board takes the view that in light of the absence of any anti-takeover measures, the current text of the Articles of Incorporation is appropriate and in line with accepted practice with respect to anti-takeover measures in the Netherlands. For the purpose of further mitigating the possible negative effects of these provisions, the Supervisory Board has decided that, absent unfriendly actions, it shall make nominations to the Executive Board and the Supervisory Board only on a non-binding basis.

# FINANCIAL INFORMATION

## EXCHANGE RATES AT DECEMBER 31, 2004

	EUR	USD	GBP	CAD	HUF	NTD
1 EUR	–	1.3621	0.7051	1.6416	245.970	43.315
1 USD	0.734	–	0.518	1.205	180.581	31.800
1 GBP	1.418	1.932	–	2.328	348.844	61.431
1 CAD	0.609	0.830	0.430	–	149.836	26.386
100 HUF	0.407	0.554	0.287	0.667	–	17.610
100 NTD	2.309	3.145	1.628	3.790	567.863	–

## WEIGHTED AVERAGE EXCHANGE RATES 2004

	EUR	USD	GBP	CAD	HUF	NTD
1 EUR	–	1.2436	0.679	1.6166	251.830	41.690
1 USD	0.804	–	0.546	1.300	202.501	33.524
1 GBP	1.473	1.832	–	2.381	370.884	61.399
1 CAD	0.619	0.769	0.420	–	155.778	25.789
100 HUF	0.397	0.494	0.270	0.642	–	16.555
100 NTD	2.399	2.983	1.629	3.878	604.054	–



## CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

In accordance with Dutch Accounting Principles

Amounts in millions

2004 USD	2003 <sup>1</sup> USD		Note number	2004 EUR	2003 <sup>1</sup> EUR
		<b>INVESTMENTS</b>			
3,176	2,862	Real estate	1	2,332	2,266
373	3,643	Group companies and participations	2	274	2,884
162,936	150,164	Other financial investments	3	119,621	118,895
270	42	Deposits with ceding undertakings	4	198	33
<b>166,755</b>	<b>156,711</b>			<b>122,425</b>	<b>124,078</b>
<b>142,847</b>	<b>126,412</b>	<b>INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS</b>	5	<b>104,873</b>	<b>100,089</b>
		<b>RECEIVABLES</b>			
2,460	3,189	Receivables out of direct insurance	6	1,806	2,525
836	1,136	Receivables out of reinsurance		614	899
2,073	1,373	Other receivables	7	1,522	1,087
<b>5,369</b>	<b>5,698</b>			<b>3,942</b>	<b>4,511</b>
		<b>OTHER ASSETS</b>			
627	403	Equipment	8	460	319
4,767	2,077	Liquid assets	9	3,500	1,645
203	210	Other assets		149	166
<b>5,597</b>	<b>2,690</b>			<b>4,109</b>	<b>2,130</b>
		<b>PREPAYMENTS AND ACCRUED INCOME</b>			
2,304	1,878	Accrued interest and rent		1,691	1,487
1,987	2,123	Other prepayments and accrued income	10	1,459	1,681
<b>4,291</b>	<b>4,001</b>			<b>3,150</b>	<b>3,168</b>
<b>324,859</b>	<b>295,512</b>	<b>TOTAL ASSETS</b>		<b>238,499</b>	<b>233,976</b>

<sup>1</sup>The 2003 numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004, as explained on page 90.

For notes: see page 93 and following.

2004 USD	2003 <sup>1</sup> USD		Note number	2004 EUR	2003 <sup>1</sup> EUR
<b>19,632</b>	<b>17,615</b>	<b>SHAREHOLDERS' EQUITY</b>	11	<b>14,413</b>	<b>13,947</b>
<b>4,375</b>	<b>2,431</b>	<b>CAPITAL SECURITIES</b>	12	<b>3,212</b>	<b>1,925</b>
<b>346</b>	<b>571</b>	<b>SUBORDINATED LOANS</b>	13	<b>254</b>	<b>452</b>
<b>24,353</b>	<b>20,617</b>	<b>EQUITY AND SUBORDINATED LOANS</b>		<b>17,879</b>	<b>16,324</b>
		<b>TECHNICAL PROVISIONS</b>	14		
123,732	116,700	Life insurance		90,839	92,399
1,722	1,330	Unearned premiums and unexpired risks		1,264	1,053
3,103	2,834	Claims outstanding		2,278	2,244
441	386	Profit sharing and rebates		324	306
554	667	Other technical provisions		407	528
129,552	121,917	Gross		95,112	96,530
(4,196)	(3,554)	Reinsurers' share		(3,081)	(2,814)
<b>125,356</b>	<b>118,363</b>			<b>92,031</b>	<b>93,716</b>
		<b>TECHNICAL PROVISIONS WITH INVESTMENTS</b>			
		<b>FOR ACCOUNT OF POLICYHOLDERS</b>	15		
147,974	129,048	Gross		108,637	102,176
(5,127)	(2,636)	Reinsurers' share		(3,764)	(2,087)
<b>142,847</b>	<b>126,412</b>			<b>104,873</b>	<b>100,089</b>
<b>3,119</b>	<b>2,088</b>	<b>PROVISIONS</b>	16	<b>2,290</b>	<b>1,653</b>
<b>5,824</b>	<b>5,926</b>	<b>LONG-TERM LIABILITIES</b>	17	<b>4,276</b>	<b>4,692</b>
<b>659</b>	<b>585</b>	<b>DEPOSITS WITHHELD FROM REINSURERS</b>	18	<b>484</b>	<b>463</b>
		<b>CURRENT LIABILITIES</b>			
4,248	3,391	Payables out of direct insurance		3,119	2,685
898	591	Payables out of reinsurance		659	468
2,685	3,336	Amounts owed to credit institutions		1,971	2,641
7,517	7,144	Entrusted savings accounts and deposits		5,519	5,656
4,814	4,662	Other payables	19	3,534	3,691
<b>20,162</b>	<b>19,124</b>			<b>14,802</b>	<b>15,141</b>
<b>2,539</b>	<b>2,397</b>	<b>ACCRUALS AND DEFERRED INCOME</b>	20	<b>1,864</b>	<b>1,898</b>
<b>324,859</b>	<b>295,512</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>238,499</b>	<b>233,976</b>

<sup>1</sup>The 2003 numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004.

For notes: see page 93 and following.

## SUMMARIZED CONSOLIDATED INCOME STATEMENTS

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

2004 USD	2003 <sup>1</sup> USD		Note number	2004 EUR	2003 <sup>1</sup> EUR	2002 <sup>1</sup> EUR
<b>REVENUES</b>						
24,251	22,020	Gross premiums		19,500	19,468	21,356
8,894	7,297	Investment income	23	7,152	6,451	6,246
1,547	1,381	Fees and commissions	24	1,244	1,221	978
353	401	Income from banking activities	25	284	354	416
414	38	Income from other activities		333	34	47
<b>35,459</b>	<b>31,137</b>	<b>TOTAL REVENUES</b>		<b>28,513</b>	<b>27,528</b>	<b>29,043</b>
<b>BENEFITS AND EXPENSES</b>						
3,246	2,560	Premiums to reinsurers		2,610	2,263	2,532
14,135	12,333	Benefits to policyholders		11,366	10,904	12,350
6,755	7,293	Change in technical provisions	26	5,432	6,448	7,556
200	194	Profit sharing and rebates	27	161	171	189
7,158	6,029	Commissions and expenses	28	5,756	5,330	5,143
826	730	Interest charges		664	645	730
176	649	Miscellaneous income and expenditure	30	141	574	858
<b>32,496</b>	<b>29,788</b>	<b>TOTAL BENEFITS AND EXPENSES</b>		<b>26,130</b>	<b>26,335</b>	<b>29,358</b>
2,963	1,349	Income before tax and exceptional items		2,383	1,193	(315)
(271)	0	Exceptional items	32	(218)	0	0
<b>2,692</b>	<b>1,349</b>	<b>INCOME BEFORE TAX</b>		<b>2,165</b>	<b>1,193</b>	<b>(315)</b>
(635)	(428)	Corporation tax	33	(511)	(378)	36
11	247	Net income non-consolidated ventures		9	218	51
<b>2,068</b>	<b>1,168</b>	<b>NET INCOME</b>		<b>1,663</b>	<b>1,033</b>	<b>(228)</b>
1.31	0.72	Net income per share <sup>2</sup>	34	1.05	0.64	(0.18)
1.31	0.72	Net income per share fully diluted <sup>2</sup>	34	1.05	0.64	(0.18)

<sup>1</sup>The 2002 and 2003 numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004.

<sup>2</sup>Adjusted for stock dividend.

For notes: see page 110 and following.

## CONSOLIDATED INCOME STATEMENTS

In accordance with Dutch Accounting Principles  
Amounts in EUR millions

	Note number	2004	2003 <sup>1</sup>	2002 <sup>1</sup>
<b>TECHNICAL ACCOUNT LIFE INSURANCE</b>				
<b>PREMIUMS FOR OWN ACCOUNT</b>				
Gross premiums		16,369	16,209	17,741
Premiums to reinsurers		(2,154)	(1,763)	(1,977)
	21	<b>14,215</b>	<b>14,446</b>	<b>15,764</b>
<b>INVESTMENT INCOME</b>	23	<b>6,852</b>	<b>6,178</b>	<b>5,985</b>
<b>FEES AND COMMISSIONS</b>	24	<b>1,079</b>	<b>980</b>	<b>676</b>
<b>INVESTMENT INCOME FOR ACCOUNT OF POLICYHOLDERS</b>		<b>8,484</b>	<b>12,858</b>	<b>(11,524)</b>
<b>BENEFITS AND SURRENDERS OWN ACCOUNT</b>				
Benefits to policyholders				
Gross		(10,753)	(10,269)	(11,490)
Reinsurers' share		730	794	765
		<b>(10,023)</b>	<b>(9,475)</b>	<b>(10,725)</b>
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>				
<b>OWN ACCOUNT</b>				
Provision for life insurance				
Gross		(15,744)	(20,559)	3,151
Reinsurers' share		2,128	1,577	1,197
		<b>(13,616)</b>	<b>(18,982)</b>	<b>4,348</b>
Other technical provisions		0	0	(5)
		<b>(13,616)</b>	<b>(18,982)</b>	<b>4,343</b>
<b>PROFIT SHARING AND REBATES</b>	27	<b>(161)</b>	<b>(171)</b>	<b>(189)</b>
<b>OPERATING EXPENSES</b>	28	<b>(4,017)</b>	<b>(3,817)</b>	<b>(3,479)</b>
<b>INVESTMENT CHARGES</b>	29	<b>(286)</b>	<b>(217)</b>	<b>(271)</b>
<b>OTHER TECHNICAL CHARGES OWN ACCOUNT</b>	30	<b>(129)</b>	<b>(526)</b>	<b>(862)</b>
		<b>2,398</b>	<b>1,274</b>	<b>(282)</b>
<b>INVESTMENT INCOME ALLOCATED TO THE NON-TECHNICAL ACCOUNT</b>	31	<b>(789)</b>	<b>(848)</b>	<b>(1,030)</b>
<b>RESULT TECHNICAL ACCOUNT LIFE</b>		<b>1,609</b>	<b>426</b>	<b>(1,312)</b>

<sup>1</sup>The 2002 and 2003 numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004.

For notes: see page 110 and following.

## CONSOLIDATED INCOME STATEMENTS

In accordance with Dutch Accounting Principles  
Amounts in EUR millions

	Note number	2004	2003 <sup>1</sup>	2002 <sup>1</sup>
<b>TECHNICAL ACCOUNT NON-LIFE INSURANCE</b>				
<b>PREMIUMS EARNED FOR OWN ACCOUNT</b>				
Gross premiums		3,131	3,259	3,615
Premiums to reinsurers		(456)	(500)	(555)
		<b>2,675</b>	<b>2,759</b>	<b>3,060</b>
Change in technical provision unearned premiums and unexpired risks				
Gross		(295)	(223)	(439)
Reinsurers' share		90	55	155
		<b>(205)</b>	<b>(168)</b>	<b>(284)</b>
		<b>2,470</b>	<b>2,591</b>	<b>2,776</b>
<b>INVESTMENT INCOME</b>	23	<b>300</b>	<b>273</b>	<b>261</b>
<b>FEES AND COMMISSIONS</b>	24	<b>165</b>	<b>241</b>	<b>302</b>
<b>CLAIMS FOR OWN ACCOUNT</b>				
Claims incurred				
Gross		(1,556)	(1,668)	(1,927)
Reinsurers' share		213	239	302
		<b>(1,343)</b>	<b>(1,429)</b>	<b>(1,625)</b>
Change in provision for claims				
Gross		(83)	(163)	(154)
Reinsurers' share		(12)	7	63
		(95)	(156)	(91)
		<b>(1,438)</b>	<b>(1,585)</b>	<b>(1,716)</b>
<b>OPERATING EXPENSES</b>	28	<b>(1,066)</b>	<b>(1,156)</b>	<b>(1,305)</b>
<b>INVESTMENT CHARGES</b>	29	<b>(4)</b>	<b>(3)</b>	<b>(2)</b>
<b>OTHER TECHNICAL CHARGES OWN ACCOUNT</b>	30	<b>(10)</b>	<b>(33)</b>	<b>(44)</b>
		<b>417</b>	<b>328</b>	<b>272</b>
<b>INVESTMENT INCOME ALLOCATED TO THE NON-TECHNICAL ACCOUNT</b>	31	<b>(20)</b>	<b>(23)</b>	<b>(26)</b>
<b>RESULT TECHNICAL ACCOUNT NON-LIFE</b>	22	<b>397</b>	<b>305</b>	<b>246</b>
<b>NON-TECHNICAL ACCOUNT</b>				
<b>RESULT TECHNICAL ACCOUNT LIFE INSURANCE</b>		<b>1,609</b>	<b>426</b>	<b>(1,312)</b>
<b>RESULT TECHNICAL ACCOUNT NON-LIFE INSURANCE</b>		<b>397</b>	<b>305</b>	<b>246</b>
<b>INCOME FROM OTHER ACTIVITIES</b>		<b>333</b>	<b>34</b>	<b>47</b>
<b>INCOME FROM BANKING ACTIVITIES</b>	25	<b>284</b>	<b>354</b>	<b>416</b>
<b>ALLOCATED INVESTMENT INCOME</b>				
<b>TRANSFERRED FROM TECHNICAL ACCOUNTS</b>	31	<b>809</b>	<b>871</b>	<b>1,056</b>
<b>OPERATING EXPENSES BANKING ACTIVITIES</b>				
<b>AND OTHER EXPENSES</b>	28	<b>(439)</b>	<b>(140)</b>	<b>(125)</b>
<b>INVESTMENT CHARGES</b>	29	<b>(608)</b>	<b>(642)</b>	<b>(691)</b>
<b>MISCELLANEOUS INCOME AND EXPENDITURE</b>	30	<b>(2)</b>	<b>(15)</b>	<b>48</b>
<b>EXCEPTIONAL ITEMS</b>	32	<b>(218)</b>	<b>0</b>	<b>0</b>
<b>INCOME BEFORE TAX</b>		<b>2,165</b>	<b>1,193</b>	<b>(315)</b>
<b>CORPORATION TAX</b>	33	<b>(511)</b>	<b>(378)</b>	<b>36</b>
<b>NET INCOME NON-CONSOLIDATED VENTURES</b>		<b>9</b>	<b>218</b>	<b>51</b>
<b>NET INCOME</b>		<b>1,663</b>	<b>1,033</b>	<b>(228)</b>

<sup>1</sup>The 2002 and 2003 numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004.

For notes: see page 110 and following.

## CONSOLIDATED CASH FLOW STATEMENTS

In accordance with Dutch Accounting Principles  
Amounts in millions

2004 USD	2003 <sup>1</sup> USD	2004 EUR	2003 <sup>1</sup> EUR	2002 <sup>1</sup> EUR
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
2,068	1,168	Net income	1,663	1,033 (228)
7,391	8,268	Increase technical provisions net of reinsurance	5,943	7,310 4,250
18,144	21,002	Annuity, GIC and funding agreement deposits	14,590	18,568 28,419
(18,706)	(17,421)	Annuity, GIC and funding agreement repayments	(15,042)	(15,402) (18,269)
825	58	Change in provisions	663	51 (777)
1,864	1,890	Amortization of deferred policy acquisition costs	1,499	1,671 1,848
73	82	Amortization of interest rate rebates	59	72 84
293	131	Depreciation of equipment	236	116 100
(36)	1,482	Change in current liabilities	(29)	1,310 2,610
170	(801)	Change in entrusted funds	137	(708) (92)
(2,080)	(2,418)	Deferred policy acquisition costs	(1,673)	(2,138) (2,887)
(31)	(43)	Interest rate rebates granted	(25)	(38) (50)
1,112	(1,175)	Change in receivables	894	(1,039) (45)
(233)	(413)	Taxation paid	(187)	(365) (311)
<b>10,854</b>	<b>11,810</b>		<b>8,728</b>	<b>10,441</b> <b>14,652</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Invested and acquired				
(3,257)	(2,068)	Real estate and shares	(2,619)	(1,828) (3,416)
1,096	(580)	Shares of group companies and subsidiaries	881	(513) (1,142)
(79,087)	(109,609)	Other investments	(63,595)	(96,905) (100,560)
(305)	(110)	Equipment	(245)	(97) (162)
Disposed and redeemed				
4,069	1,905	Real estate and shares	3,272	1,684 3,982
(123)	718	Shares of group companies and subsidiaries	(99)	635 316
69,934	102,347	Other investments	56,235	90,484 89,766
1,239	9	Equipment	996	8 12
(1,801)	(4,875)	Change in investments for account of policyholders	(1,448)	(4,310) (4,204)
(971)	(467)	Other movements	(781)	(413) 952
<b>(9,206)</b>	<b>(12,730)</b>		<b>(7,403)</b>	<b>(11,255)</b> <b>(14,456)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
1,063	1,165	Change in subordinated and other long-term loans	855	1,030 (789)
33	21	Repurchased and sold own shares	26	19 0
0	0	Paid in capital/withdrawal preferred shares	0	0 2,053
0	0	Change in deposits withheld from reinsurers	0	0 (1)
0	0	Cash settlement stock options	0	0 (6)
(437)	(200)	Dividend paid	(351)	(177) (734)
<b>659</b>	<b>986</b>		<b>530</b>	<b>872</b> <b>523</b>
<b>2,307</b>	<b>66</b> <b>CHANGE IN LIQUID ASSETS</b>		<b>1,855</b>	<b>58</b> <b>719</b>
1,2436	1.1311	Translation rate EUR/USD: weighted average exchange rate		

<sup>1</sup>The 2002 and 2003 numbers have been adjusted to reflect the changes in accounting principles implemented as of January 1, 2004.

The cash flow statement is prepared 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 are therefore not 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 the sensitivity of AEGON to movements in interest rates, currency markets and equity and real estate markets, and their effects on net income and shareholders' equity on a DAP basis, refer to the review of risk factors on page 41.

Application of the accounting policies in the preparation of the annual accounts requires management to use judgments 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 judgment 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 January 1, 2004, the following changes in accounting principles have been adopted:

- With International Financial Reporting Standards (IFRS) becoming AEGON's required reporting standard in 2005, AEGON decided to discontinue the indirect income method of accounting for capital gains and losses. Gains and losses on shares and real estate are now recognized in the income statement when realized;
- Statement of Position (SOP) 03-01 issued by the Accounting Standards Executive Committee (AcSEC) of the AICPA is implemented by AEGON USA. SOP 03-01 addresses a number of items within FAS 97, and two elements in particular had an effect on AEGON USA:
  - The establishment of additional mortality-based provisions on universal life contracts. SOP 03-01 changes the timing of the recognition of mortality profits into earnings;
  - SOP 03-01 changes the methodology for calculating provisions for minimum guaranteed living and death benefits on variable annuity and variable life contracts.

As a result of the new accounting principles adopted in 2004, the 2003 and 2002 results included in these financial statements have been adjusted as follows for comparison:

Amounts in EUR millions	2003	2002
Income before tax – as reported	<b>2,147</b>	1,849
Less: indirect income	(631)	(758)
Effect of SOP 03-01	(53)	(63)
Income before tax and before realized gains and losses on shares and real estate	<b>1,463</b>	1,028
Realized gains and losses on shares and real estate	(270)	(1,343)
Income before tax – adjusted	<b>1,193</b>	(315)

The effect on shareholders' equity of the changes in accounting principles can be summarized as follows:

Amounts in EUR millions	January 1, 2004	January 1, 2003
Shareholders' equity – as reported	<b>14,132</b>	14,231
Effect of SOP 03-01	(185)	(185)
Shareholders' equity – adjusted	<b>13,947</b>	14,046

As a result of the discontinuation of the indirect income method, the realized portion of the revaluation account at December 31, 2003, amounting to EUR 1,281 million was transferred to the other surplus fund as of January 1, 2004. This change in accounting principles did not have an impact on total shareholders' equity.

As of January 1, 2005, all public listed companies in the European Union are required to prepare their financial statements in conformity with International Financial Reporting Standards (IFRS). AEGON N.V. will be converting from Dutch Accounting Principles (DAP) as its primary accounting framework to IFRS as of January 1, 2005. The first full set of financial statements prepared under IFRS will be the annual financial statements for the year ending December 31, 2005. The annual financial statements for 2005, as well as the quarterly reporting that will be presented during 2005, will include comparative numbers for 2004 on an IFRS basis. As a result, AEGON has effectively already made the transition to IFRS on January 1, 2004. The effect of the conversion from DAP to IFRS will be reflected as a direct entry in the other surplus fund of shareholders' equity in the 'opening balance sheet' at January 1, 2004. AEGON will publish its condensed 'opening balance sheet' and results for 2004 on an IFRS basis on April 14, 2005. The information that will be published

will include a balance sheet at January 1, 2004 and at December 31, 2004, both presented on an IFRS basis, quarterly results per line of business by reporting segment on an IFRS basis, as well as reconciliations from DAP to IFRS for shareholders' equity and net income.

Certain amounts in prior years have been reclassified to conform to the current year presentation.

AEGON N.V. announced on January 14, 2004, that its subsidiary Transamerica Finance Corporation (TFC) closed on the sale of most of TFC's commercial lending business to GE Commercial Finance, the business-to-business financial services unit of the General Electric Company. The agreement and its details were announced on August 5, 2003. The total payment of USD 5.4 billion resulted in an after tax gain of USD 204 million under Dutch Accounting Principles, which was added to shareholders' equity in 2004.

On January 28, 2004, Caja de Ahorros del Mediterráneo (CAM) and AEGON reached a final agreement on a strategic partnership. The partners have created a company, which combines CAM's customer reach through its banking network and AEGON's expertise in life insurance and pensions.

On October 20, 2004, AEGON announced that AEGON-CNOOC Life Insurance Company Ltd., the 50/50 joint venture of AEGON with the Chinese National Offshore Oil Corporation (CNOOC), signed a national cooperation agreement with the Agricultural Bank of China. The Agricultural Bank of China (ABC) is one of the 'Big Four' banks in the People's Republic of China. Through this agreement, AEGON-CNOOC will provide a broad range of life and accident and health insurance services to ABC's extensive customer base. ABC will provide AEGON-CNOOC with payment and cash management services.

On October 28, 2004, AEGON announced the expected sale of the maritime container leasing business and the sale of the European trailer leasing business by its subsidiary TFC. On November 4, 2004, AEGON announced that TFC had sold its maritime container leasing business to TAL International Group, Inc. for a purchase price of USD 1.2 billion. AEGON has provided interim financing of USD 275 million, which will be repaid within one year of the closing. AEGON used the net proceeds to redeem debt. The maritime container leasing activities represent approximately USD 1.1 billion in assets. On February 16, 2005, AEGON announced the sale of the European trailer leasing business of TFC to Goldman Sachs and Cerberus Capital Management. The financial effect of these divestitures, which under DAP was booked in shareholders' equity in 2004, was not material.

On December 13, 2004, AEGON announced the increase of its stake in La Mondiale Participations from 20% to 35%, through an increase of capital of La Mondiale Participations, effective December 31, 2004.

On December 30, 2004, AEGON announced that it had entered into an agreement to sell AEGON Seguros Generales, its general insurance subsidiary in Spain, to Italian mutual insurance company Reale Mutua Group, effective January 1, 2005. The price of the sale is approximately EUR 250 million and will be fixed at completion. The transaction will result in a book profit of approximately EUR 130 million after tax. The sale is subject to regulatory approval and is expected to be completed in the second quarter of 2005.

On February 11, 2005, AEGON announced that it had reached agreement with Dexia and Banque Internationale à Luxembourg S.A. resolving a dispute over the sale of Labouchere to Dexia in 2000. AEGON agreed to pay EUR 218 million in cash in full and final settlement of all and any claims in this regard. The settlement amount was recognized as an exceptional item in the 2004 results.

#### **CONSOLIDATION PRINCIPLES**

All group companies have been included in the consolidated financial statements of AEGON N.V., except for some group companies whose aggregate financial effect is relatively insignificant. 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.

The interest in the TFC non-insurance businesses was accounted for under shares in group companies at net asset value until December 31, 2003. These group companies were not consolidated because the nature of their business was dissimilar to the rest of the AEGON Group businesses. Most of TFC's non-insurance business was sold with the sale of most of its commercial lending business in early 2004. The remaining TFC businesses are consolidated as of January 1, 2004.

Minority interests are included under Other current liabilities as the amounts involved are insignificant.

A list of names and locations of the most important group companies is provided on page 137.

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.

**FOREIGN CURRENCY**

Assets and liabilities denominated in foreign currencies are converted into euro (EUR) 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 held in subsidiaries in excess of these requirements may 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'.

All other currency exchange rate differences are included in the income statements.

The most important closing rates at December 31 are:	2004	2003
US Dollar (USD)	<b>1.3621</b>	1.2630
Pound Sterling (GBP)	<b>0.7051</b>	0.7048
Canadian Dollar (CAD)	<b>1.6416</b>	1.6234
Hungarian Forint (HUF)	<b>245.9700</b>	262.5000
Taiwan Dollar (NTD)	<b>43.3150</b>	42.8800

Weighted average exchange rates applied for income statement items:	2004	2003	2002
US Dollar (USD)	<b>1.2436</b>	1.1311	0.9468
Pound Sterling (GBP)	<b>0.6790</b>	0.6909	0.6283
Canadian Dollar (CAD)	<b>1.6166</b>	1.5809	1.4847
Hungarian Forint (HUF)	<b>251.8300</b>	253.3400	242.8800
Taiwan Dollar (NTD)	<b>41.6900</b>	39.1500	32.7700

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

### ACCOUNTING PRINCIPLES

Unless 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 judgment on possible defaults and are 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 the 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, cash flow trends and underlying levels of collateral are monitored for asset-backed securities and loans. 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 as potential credit risks are monitored and placed on a watch list. Discussions about the 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 the 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.

1 REAL ESTATE	2004	2003
Real estate for own use	223	255
Other real estate	2,109	2,011
	<b>2,332</b>	<b>2,266</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 five-year period. Valuation is largely based on external appraisal. In 2004 80% of the portfolio was valued. New property is valued at construction cost including interest during the construction period, or at purchase price.

Unrealized 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. Realized gains and losses are recognized in the income statement when realized. The impairments for the financial year amounted to EUR 1 million (2003: EUR 79 million).

The 50% participation in the real estate joint venture AMVEST Vastgoed is accounted for under this caption.

The purchase price of the portfolio amounts to EUR 1,654 million (2003: EUR 1,591 million).

2 GROUP COMPANIES AND PARTICIPATIONS	2004	2003
Shares in group companies:		
Transamerica Finance Corporation	–	684
Other group companies	67	160
Total group companies	67	844
Loans to/(from) group companies:		
Transamerica Finance Corporation	–	1,989
Other group companies	(47)	(48)
Total loans to/(from) group companies	(47)	1,941
Other participations	227	93
Loans to other participations	27	6
<b>TOTAL</b>	<b>274</b>	<b>2,884</b>

Interests in companies in which AEGON is able to influence operating policy but where AEGON has no control, as well as interests in 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 certain provisions where necessary. Dividends declared are included in the consolidated income statements.

MOVEMENTS IN GROUP COMPANIES AND PARTICIPATIONS	Shares in group companies and participations		Loans to group companies and participations	
	2004	2003	2004	2003
Balance at January 1	937	1,131	1,947	2,425
Capital contribution and acquisitions	169	102	535	53
Divestitures and redemptions	(31)	(629)	(230)	(6)
Net income for the financial year	30	290	–	–
Dividend distributed	(74)	(23)	–	–
Revaluations/exchange rate differences	(8)	(130)	0	(412)
Consolidation TFC	(684)	–	(1,989)	–
Other movements	(45)	196	(283)	(113)
<b>BALANCE AT DECEMBER 31</b>	<b>294</b>	<b>937</b>	<b>(20)</b>	<b>1,947</b>

3 OTHER FINANCIAL INVESTMENTS	2004		2003
	2004	2003	2003
Shares		6,685	6,545
Bonds and other fixed rate securities		76,272	71,576
Loans guaranteed by mortgages		15,384	16,748
Other loans		17,339	18,710
Deposits with credit institutions		456	1,349
Other financial investments		3,485	3,967
	<b>119,621</b>	<b>118,895</b>	
<b>SHARES</b>		<b>6,685</b>	<b>6,545</b>

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 gains and losses on shares are recognized in the revaluation account, taking into account (deferred) taxes. Realized gains and losses are recognized in the income statement when realized.

	Cost price	Unrealized gains	Unrealized losses	Market value
Amounts at December 31,				
2004	5,603	1,151	(69)	6,685
2003	5,540	1,097	(92)	6,545

A realized loss is recorded for shares whose market value is considered to be impaired on an 'other than temporary' basis. Shares held in an unrealized loss position that are below cost for over six months are evaluated for a possible other than temporary impairment. However, independent third party documentation about the financial condition and 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 in identifying other than temporarily impaired shares. These factors typically require significant management judgment.

The impairments for the financial year amounted to EUR 25 million (2003: EUR 273 million).

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

The 95% participation in AEGON Global Investment Fund N.V. is accounted for under this caption.

Shares and convertible debentures lent out are included and amount to EUR 96 million (2003: EUR 826 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	
	2004	2003	2004	2003
Communication	13	17	(1)	(1)
Consumer Cyclical	47	39	(7)	(10)
Consumer Non-Cyclical	66	77	(6)	(5)
Financials	92	205	(7)	(7)
Funds	138	160	(8)	(14)
Industries	67	63	(4)	(4)
Resources	20	1	(2)	0
Services Cyclical	101	94	(5)	(4)
Services Non-Cyclical	29	21	(2)	(2)
Technology	63	14	(5)	(2)
Transport	0	13	0	(1)
Other – Limited Partnerships	79	165	(21)	(33)
Other	37	117	(1)	(9)
Total shares in an unrealized loss position	752	986	(69)	(92)

	2004	2003
<b>BONDS AND OTHER FIXED RATE SECURITIES</b>	<b>76,272</b>	<b>71,576</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.

Unless a loss is considered a default loss, realized gains and losses from transactions within the bond and private placement portfolios 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.

	2004	2003
Redemption value of the bonds	76,448	73,677
Deferred purchase differences	(3,707)	(5,054)
Amortization value bonds	72,741	68,623
Other fixed rate securities	3,531	2,953
	76,272	71,576

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

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

	Carrying value	Unrealized gains	Unrealized losses	Market value
<b>Amounts at December 31, 2004</b>				
US government	3,921	54	(22)	3,953
Dutch government	1,296	81	0	1,377
Other government	8,806	608	(10)	9,404
Mortgage and asset backed securities	13,412	206	(63)	13,555
Corporate bonds	48,837	2,763	(101)	51,499
<b>Total</b>	<b>76,272</b>	<b>3,712</b>	<b>(196)</b>	<b>79,788</b>
<b>Amounts at December 31, 2003</b>				
US government	2,945	38	(25)	2,958
Dutch government	898	34	(1)	931
Other government	6,730	339	(50)	7,019
Mortgage and asset backed securities	13,592	270	(188)	13,674
Corporate bonds	47,411	2,794	(115)	50,090
<b>Total</b>	<b>71,576</b>	<b>3,475</b>	<b>(379)</b>	<b>74,672</b>

The carrying value and market value of bonds and other fixed rate securities by contractual maturity at December 31, 2004, are as follows:

	Carrying value	Market value
Due in one year or less		7,926
Due after one year through five years		20,447
Due after five years through ten years		26,096
Due after ten years		21,803
	<b>76,272</b>	<b>79,788</b>

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 81 million (2003: EUR 194 million).

Bonds and other fixed rate securities lent out are included and amount to a carrying value of EUR 8,905 million (2003: EUR 3,784 million).

	2004	2003
<b>LOANS GUARANTEED BY MORTGAGES</b>	<b>15,384</b>	<b>16,748</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.

The market value of the portfolio amounts to EUR 16,401 million (2003: EUR 18,011 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 71 million (2003: EUR 47 million).

	2004	2003
<b>OTHER LOANS</b>	<b>17,339</b>	<b>18,710</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.

Unless the loss is considered a default loss, realized gains and losses from transactions within the private placement and bond portfolios valued at amortized cost are 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.

	2004	2003
Redemption value	19,299	21,360
Deferred purchase differences	(1,960)	(2,650)
Amortization value	17,339	18,710

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

	Carrying value	Unrealized gains	Losses	Market value
<b>Amounts at December 31, 2004</b>				
US government	0	0	0	0
Dutch government	44	7	0	51
Other government	633	26	(4)	655
Mortgage and asset backed loan agreements	4,704	122	(72)	4,754
Corporate private placements	11,958	719	(89)	12,588
<b>Total</b>	<b>17,339</b>	<b>874</b>	<b>(165)</b>	<b>18,048</b>
<b>Amounts at December 31, 2003</b>				
US government	0	0	0	0
Dutch government	98	9	0	107
Other government	702	36	(5)	733
Mortgage and asset backed loan agreements	4,800	120	(175)	4,745
Corporate private placements	13,110	826	(184)	13,752
<b>Total</b>	<b>18,710</b>	<b>991</b>	<b>(364)</b>	<b>19,337</b>

The carrying value and market value of the private placements by contractual maturity at December 31, 2004, are as follows:

	Carrying value	Market value
Due in one year or less	833	853
Due after one year through five years	5,498	5,672
Due after five years through ten years	6,373	6,588
Due after ten years	4,635	4,935
<b>Total</b>	<b>17,339</b>	<b>18,048</b>

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 structure.

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 is EUR 91 million (2003: nil).

	2004	2003
<b>DEPOSITS WITH CREDIT INSTITUTIONS</b>	<b>456</b>	<b>1,349</b>

This item relates to amounts that can be called up after a minimum period of one year. Market value of the deposits is equal to book value.

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

	2004	2003
<b>OTHER FINANCIAL INVESTMENTS</b>		
Policy loans	1,271	1,369
Receivables out of share lease agreements and others	2,214	2,598
	<b>3,485</b>	<b>3,967</b>

Market value of policy loans is equal to book value. The market value of receivables from share lease agreements and others amounts to EUR 2,214 million (2003: EUR 2,595 million).

The provision for doubtful debts amounts to EUR 98 million (2003: EUR 19 million).

<b>4 DEPOSITS WITH CEDING UNDERTAKINGS</b>	2004	2003
	<b>198</b>	<b>33</b>

This item represents debentures related to reinsurance contracts that are not at free disposal.

Market value of deposits with ceding undertakings is equal to book value.

<b>CHANGES IN INVESTMENTS</b>	Balance at January 1, 2004	Acquired	Disposed and redeemed	Revaluations	Currency exchange rate differences and other changes	Balance at December 31, 2004
Real estate	2,266	174	(266)	122	36	2,332
Group companies and participations	2,884	704	(261)		(3,053) <sup>1</sup>	274
Shares	6,545	2,445	(3,006)	598	103	6,685
Bonds and other fixed rate securities	71,576	51,389	(42,529)		(4,164)	76,272
Loans guaranteed by mortgages	16,748	3,348	(3,921)		(791)	15,384
Other loans	18,710	7,043	(7,024)		(1,390)	17,339
Deposits with credit institutions	1,349	488	(1,382)		1	456
Other financial investments	3,967	1,161	(1,380)		(263)	3,485
Deposits with ceding undertakings	33	165	0		0	198
<b>TOTAL</b>	<b>124,078</b>	<b>66,917</b>	<b>(59,769)</b>	<b>720</b>	<b>(9,521)</b>	<b>122,425</b>
<b>BALANCES AND CHANGES OF 2003</b>	<b>134,164</b>	<b>98,889</b>	<b>(92,803)</b>	<b>679</b>	<b>(16,851)</b>	<b>124,078</b>

<sup>1</sup>Included in this amount is EUR (2,673) million resulting from the consolidation of TFC as of January 1, 2004.

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, fixed rate securities and private placements with gross unrealized losses		Gross unrealized losses	
	2004	2003	2004	2003
Asset-backed securities				
- Aircraft	203	289	(12)	(112)
- CBOs	336	580	(26)	(49)
- Housing Related	899	1,802	(7)	(45)
- Credit Card	550	384	(5)	(10)
Collateralized Mortgage-Backed Securities	1,189	2,079	(22)	(39)
Consumer Cyclical	1,020	807	(20)	(29)
Consumer Non-Cyclical	1,410	1,419	(44)	(40)
Electric, Energy and Natural Gas	1,409	1,933	(24)	(78)
Financials	3,432	3,768	(65)	(106)
Industries	573	3,098	(8)	(108)
Other	9,036	5,512	(128)	(127)
Total bonds, other fixed rate securities and private placements in an unrealized loss position	20,057	21,671	(361)	(743)

#### OVERVIEW DEFAULT PROVISIONS FOR INVESTMENTS

	Balance at January 1	Addition charged to income statement	Charged for default	Other movements	Balance at December 31
<b>2004</b>					
Bonds and other fixed rate securities	194	146	(146)	(113)	81
Loans guaranteed by mortgages	47	36	(19)	7	71
Other loans	0	0	0	91	91
Other financial investments	19	13	(2)	68	98
<b>TOTAL</b>	<b>260</b>	<b>195</b>	<b>(167)</b>	<b>53</b>	<b>341</b>
<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>

#### 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 107.

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

	2004	2003
Balance at January 1	100,089	94,728
Acquired	32,691	25,177
Disposed and redeemed	(30,438)	(21,068)
Investment income including revaluations	8,484	12,858
Currency exchange rate differences and other changes	(5,953)	(11,606)
<b>BALANCE AT DECEMBER 31</b>	<b>104,873</b>	<b>100,089</b>

#### 6 RECEIVABLES OUT OF DIRECT INSURANCE

	2004	2003
Policyholders	1,762	2,425
Agents	44	100
<b>TOTAL RECEIVABLES OUT OF DIRECT INSURANCE</b>	<b>1,806</b>	<b>2,525</b>

The provision for doubtful debts for these receivables amounts to EUR 106 million (2003: EUR 135 million).

#### 7 OTHER RECEIVABLES

	2004	2003
Investment receivables	438	481
Taxes and social security	0	131
Other	1,084	475
<b>TOTAL OTHER RECEIVABLES</b>	<b>1,522</b>	<b>1,087</b>

Other receivables mature within one year. The provision for doubtful debts for other receivables amounts to EUR 111 million (2003: EUR 43 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	Equipment held for lease	Total equipment
Total cost of equipment				777
Accumulated depreciation				(458)
Balance at January 1, 2004	238	81	0	319
Consolidation TFC	85	0	1,220	1,305
Investments	36	21	188	245
Depreciation	(80)	(23)	(133)	(236)
Disposals and other changes	(94)	(9)	(1,070)	(1,173)
<b>BALANCE AT DECEMBER 31, 2004</b>	<b>185</b>	<b>70</b>	<b>205</b>	<b>460</b>
Accumulated depreciation				780
Total cost of equipment				1,240

### 9 LIQUID ASSETS

	2004	2003
Cash on hand and balances with banks	655	980
Short-term investments	2,845	665
<b>TOTAL LIQUID ASSETS</b>	<b>3,500</b>	<b>1,645</b>

Liquid assets are at free disposal.

### 10 OTHER PREPAYMENTS AND ACCRUED INCOME

	2004	2003
Prepaid pension costs on employee plans	1,321	1,450
Other prepayments and accrued income	138	231
<b>TOTAL OTHER PREPAYMENTS AND ACCRUED INCOME</b>	<b>1,459</b>	<b>1,681</b>

For an explanation of the prepaid pension costs on employee plans, refer to page 118.

### 11 SHAREHOLDERS' EQUITY

For the notes to the share capital, reserves, stock appreciation rights and stock options, refer to page 140 and following.

### 12 CAPITAL SECURITIES

	2004	2003
Perpetual capital securities	1,317	–
Perpetual cumulative subordinated bonds	1,517	1,517
Trust Pass-through Securities	378	408
<b>TOTAL CAPITAL SECURITIES</b>	<b>3,212</b>	<b>1,925</b>

### PERPETUAL CAPITAL SECURITIES

	Year <sup>1</sup>	
EUR 950 million, coupon date October 15, January 15, April 15, July 15	2014	950
USD 500 million, coupon date October 15, January 15, April 15, July 15	2014	367
<b>TOTAL PERPETUAL CAPITAL SECURITIES</b>	<b>1,317</b>	<b>–</b>

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

The coupon of the Euro tranches of the perpetual capital securities is based on the yield of 10-year Dutch government bonds plus an additional spread of 10 basis points. The coupon will be reset each quarter based on the then prevailing 10-year Dutch government bond yield, with a maximum of 8.0%. The coupon of the US dollar tranches of the perpetual capital securities is based on the yield of 10-year USD interest rate swaps plus an additional spread of 10 basis points. The coupon is reset each quarter based on the then prevailing 10-year USD interest rate swap yield, with a maximum of 8.5%.

The securities have been issued at par. The securities have subordination provisions and rank junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required coupon payment deferral. Any deferred coupon payment (with accrued interest on the deferred coupon payment, if applicable) will be satisfied from the proceeds of such amount of ordinary shares as required to make the payment in full. Although the securities have no stated maturity, AEGON has the right to call the securities for redemption at par for the first time on July 15, 2014 or on any coupon payment date thereafter.

The market value of these securities amounts to EUR 1,320 million.

PERPETUAL CUMULATIVE SUBORDINATED BONDS		2004	2003
	Year <sup>1</sup>		
Interest rate 8%, coupon date June 8	2005	114	114
Interest rate 7 1/2%, coupon date September 29	2005	114	114
Interest rate 7 3/4%, coupon date December 15	2005	136	136
Interest rate 7 1/2%, coupon date March 4	2011	203	203
Interest rate 7 5/8%, coupon date July 10	2008	114	114
Interest rate 7 1/4%, coupon date October 14	2008	136	136
Interest rate 6 7/8%, coupon date December 20	2005	700	700
<b>TOTAL PERPETUAL CUMULATIVE SUBORDINATED BONDS</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 1/2% bonds are set at 7 1/2% until March 4, 2011, while the EUR 136 million 7 3/4% bonds are set at 7 3/4% 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 bonds are fixed.

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

Although the bonds have no stated maturity, AEGON has the right to call the bonds 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 bonds for redemption at par on every tenth year thereafter on the coupon date, with the exception of the EUR 700 million 6 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 bonds amounts to EUR 1,602 million (2003: EUR 1,589 million).

TRUST PASS-THROUGH SECURITIES		2004	2003
This item comprises the following loans:			
USD 100 million 7 1/2% Capital Trust Pass-through Securities	1996/2026	73	79
USD 225 million 7 13/20% Capital Trust Pass-through Securities	1996/2026	165	178
USD 190 million 7 5/8% Capital Trust Pass-through Securities	1997/2037	140	151
<b>TOTAL TRUST PASS-THROUGH SECURITIES</b>		<b>378</b>	<b>408</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 1/2% TRUPS on or after December 1, 2006.

The market value of these loans amounts to EUR 468 million (2003: EUR 509 million).

13 SUBORDINATED LOANS	Remaining terms between 1-3 years	Remaining terms between 4-5 years	Total 2004	Total 2003
USD 264 million 8%	194	–	194	209
Other subordinated loans	26	34	60	243
<b>TOTAL SUBORDINATED LOANS</b>	<b>220</b>	<b>34</b>	<b>254</b>	<b>452</b>

These loans are subordinated to all other liabilities and borrowings. The interest rates vary from 6.51% to 8.18%. The market value of these loans amounts to EUR 279 million (2003: EUR 495 million).

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

### 14 TECHNICAL PROVISIONS

	Balance at January 1, 2004	Increase charged to the income statement	Exchange rate fluctuations and other changes	Balance at December 31, 2004
<b>LIFE INSURANCE:</b>				
Life insurance	46,305	2,979	(2,133)	47,151
Fixed annuities	35,555	1,482	(4,660) <sup>1</sup>	32,377
GICs and funding agreements	21,543	623	(595) <sup>2</sup>	21,571
	103,403	5,084	(7,388)	101,099
Deferred policy acquisition costs	(12,717)			(12,255)
Unamortized interest rate rebates	(361)			(325)
<b>SUBTOTAL LIFE INSURANCE</b>	<b>90,325</b>			<b>88,519</b>
<b>NON-LIFE INSURANCE:</b>				
Unearned premiums and unexpired risks	1,681	205	(121)	1,765
Deferred policy acquisition costs	(947)			(878)
	734			887
Claims outstanding	1,823	95	(24)	1,894
<b>SUBTOTAL NON-LIFE INSURANCE</b>	<b>2,557</b>			<b>2,781</b>
<b>PROFIT SHARING AND REBATES</b>	306			324
<b>OTHER</b>	528	0	(121)	407
<b>TOTAL</b>	<b>93,716</b>	<b>5,384</b>		<b>92,031</b>

<sup>1</sup>Of which the balance of deposits and withdrawals is EUR (2,161) million.

<sup>2</sup>Of which the balance of deposits and withdrawals is EUR 1,037 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 the 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.

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 2,409 million (2003: EUR 2,404 million).

The average interest rate used is 4.96% (2003: 5.18%). Taking into account the capitalized interest rate rebates, the average interest rate used is 5.12% (2003: 5.38%).

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	2004	2003
<b>PROVISIONS</b>		
Guaranteed minimum benefits on variable products in the United States	USD 217	203
Guaranteed minimum accumulation benefits on segregated funds in Canada	CAD 191	166
Guaranteed return on certain 'fund plan' and group life products in the Netherlands	EUR 323	278

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 the higher of the account balance or the guaranteed amount. 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 Statement of Position 03-01 (SOP 03-01), issued by AcSEC, changed the provisioning for mortality on universal life contracts and for guaranteed living and death benefits on variable annuity and variable life contracts in the United States.

The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. AEGON regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used in estimating the liability as of December 31, 2004, are consistent with those used for amortizing DPAC, including the mean reversion assumption. The assumptions of investment performance and volatility are consistent with historical experience. The benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios.

The GMIB liability is determined each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. AEGON regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used for calculating the GMIB liability as of December 31, 2004, are consistent with those used for calculating the GMDB liability. In addition, the calculation of the GMIB liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

Universal life-type contracts that assess charges for a mortality benefit feature in a manner that is expected to result in profits in earlier years and losses in subsequent years are now required to establish a reserve in addition to the account balance to recognize the portion of such assessments that compensates the insurance enterprise for benefits to be provided in future periods. The consequence of SOP 03-01 is that a product that fails this test for any future year is required to establish a reserve that would cause mortality margins to be more level over the policy life. The reserve is not limited to the amount of the losses for those years with a mortality loss.

In Canada the variable annuity products sold are known as segregated funds. 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 the Netherlands, fund plan 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 modeling. 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 modeling 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* are for 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 the company can reset it. The funds grow on a tax-deferred basis and have significant long term savings characteristics. The benefit reserves are equal to the fully 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 fully accumulated contract values. AEGON also consolidates SPEs that issue floating rate notes and own fixed rate AAA-wrapped municipal debt securities. AEGON owns a residual interest in these SPEs and also provides certain guarantees to the noteholders.

The account balances at December 31, 2004, consist of fixed rate, fixed maturity contracts (45%), floating rate, indeterminate maturity contracts (30%), floating rate, fixed maturity contracts (22%), and market indexed, fixed maturity contracts (3%). Most of the fixed rate contracts are swapped to floating rate via swap agreements. Credited interest on floating rate contracts is reset mostly on a monthly basis based on various indices. Indeterminate maturity contracts allow the customer to withdraw funds with advance notice periods ranging from three to 13 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.

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

Amounts in EUR millions

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

	2004	2003
<b>Liabilities for GICs and funding agreements:</b>		
Guaranteed investment contracts issued to defined contribution/benefit plans	3,039	3,386
Medium Term Note funding agreements issued to a special purpose entity	6,675	6,444
Cash market funding agreements	5,003	4,992
Municipal/governmental funding agreements	3,807	3,939
Other funding agreements	3,047	2,782
<b>Total liabilities for GICs and funding agreements</b>	<b>21,571</b>	<b>21,543</b>

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

	2004	2003
<b>Book value out<sup>1</sup></b>		
Putable:		
90 days' put	1,166	1,281
180 days' put	589	634
364 days'+ put	2,926	2,835
<b>Total putable</b>	<b>4,681</b>	<b>4,750</b>
<b>Market value out<sup>2</sup></b>		
90 days' notice	778	953
180 days' notice	65	173
<b>Total market value out</b>	<b>843</b>	<b>1,126</b>
<b>Not putable or surrenderable</b>	<b>16,047</b>	<b>15,667</b>
<b>Total GICs and funding agreements</b>	<b>21,571</b>	<b>21,543</b>

<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 clauses 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, 2004, the contractual maturities for all contracts with defined maturities were for 2005: EUR 3,979 million; for 2006: EUR 3,757 million; for 2007: EUR 2,606 million; for 2008: EUR 1,119 million; for 2009: EUR 1,688 million; and thereafter EUR 3,739 million.

	2004	2003
<b>DEFERRED POLICY ACQUISITION COSTS</b>		
Balance at January 1	12,717	14,352
Deferred during the year	1,465	1,847
Amortization charged to the income statement	(1,270)	(1,398)
Other changes <sup>1</sup>	(657)	(2,084)
<b>BALANCE AT DECEMBER 31</b>	<b>12,255</b>	<b>12,717</b>
Of which value of business acquired life (VOBA)	3,427	3,866

<sup>1</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, 2004, the reversion to the mean assumptions for variable products, primarily annuities in the United States, were as follows: gross long-term equity growth rate of 9% (2003: 9%), gross short-term growth rate of 6.25% (2003: 7.5%), 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 3.5%. For Canada these assumptions, at December 31, 2004, were as follows: gross long-term equity growth rate of 9% (2003: 9.5%), gross short-term growth rate was 10.75% (2003: 10.75%). 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. The VOBA is fundamentally the same as DPAC and is 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:

	2004	2003
Balance at January 1	4,110	5,502
Amortization charged to the income statement	(319)	(410)
Other changes <sup>1</sup>	(174)	(982)
<b>BALANCE AT DECEMBER 31</b>	<b>3,617</b>	<b>4,110</b>

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

	2004	2003
<b>UNAMORTIZED INTEREST RATE REBATES</b>		
Balance at January 1	361	389
Rebates granted during the year	25	38
Amortization charged to the income statement	(59)	(72)
Other changes	(2)	6
<b>BALANCE AT DECEMBER 31</b>	<b>325</b>	<b>361</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.

	2004	2003
<b>DEFERRED POLICY ACQUISITION COSTS</b>		
Balance at January 1	947	1,109
Deferred during the year	208	291
Amortization charged to the income statement	(229)	(273)
Other changes <sup>1</sup>	(48)	(180)
<b>BALANCE AT DECEMBER 31</b>	<b>878</b>	<b>947</b>
Of which value of business acquired non-life (VOBA)	190	244

<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 DPAC 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.

	2004	2003
<b>CLAIMS OUTSTANDING</b>		
Balance at January 1	2,244	2,315
Less reinsurance recoverables	(421)	(475)
Net balance	1,823	1,840
Incurred related to:		
– current year	1,316	1,363
– prior years	(50)	(25)
Total incurred	1,266	1,338
Paid related to:		
– current year	(624)	(654)
– prior years	(525)	(553)
Total paid	(1,149)	(1,207)
Other changes	(46)	(148)
Net balance at December 31:		
– current year	692	710
– prior years	1,202	1,113
Plus reinsurance recoverables	1,894	1,823
	383	421
<b>BALANCE AT DECEMBER 31</b>	<b>2,277</b>	<b>2,244</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

These consist 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:

	2004	2003
Life insurance	2,320	2,075
Unearned premiums and unexpired risks	378	318
Claims outstanding	383	421
	3,081	2,814

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, 2004, there were no reinsurance receivables associated with a single reinsurer with a carrying value in excess of 5% of total assets of AEGON N.V.

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, 2004	Increase debited to the income statement	Exchange rate fluctuations and other changes	Balance at December 31, 2004
Provisions gross	102,176			108,637
Ceded to reinsurers	(2,087)			(3,764)
<b>PROVISIONS FOR INSURANCE OF WHICH THE POLICYHOLDER BEARS THE INVESTMENT RISK AND FOR INSURANCE-LINKED SAVINGS DEPOSITS</b>	<b>100,089</b>	<b>8,532</b>	<b>(3,748)</b>	<b>104,873</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 22,648 million). The amount of EUR 8,532 million debited to the income statement is the total of premium receipt and benefits of EUR 48 million and the investment income for account of policyholders amounting to EUR 8,484 million.

The provisions are generally shown at book value of the related investments.

The provisions include an amount of EUR 1,503 million (2003: EUR 1,465 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

16 PROVISIONS	2004	2003
Provisions for taxation	2,290	1,653

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 2,922 million.

As at December 31, the provisions for taxation consist of:

	2004	2003
Deferred tax liabilities relating to:		
Investments	687	308
Deferred policy acquisition costs	3,219	2,772
Other	710	1,094
	4,616	4,174
Deferred tax assets relating to:		
Technical provisions	784	896
Operating losses carried forward	657	779
Investments	885	846
	2,326	2,521
	2,290	1,653
Total tax losses carried forward	2,219	2,452
Tax losses carried forward not recognized within deferred tax assets	(252)	(201)
Tax losses carried forward recognized within deferred tax assets	1,967	2,251
Average tax rate	31.1%	34.5%
Tax losses carried forward as at December 31, by terms of expiration:		
Up to five years	185	76
Five to ten years	12	9
Ten to twenty years	511	1,250
Unlimited	1,511	1,117
Total tax losses carried forward	2,219	2,452

The movements in provisions for taxation were as follows:

Balance at January 1	1,653	1,724
Exchange rate differences	(61)	(109)
Movement for the year	698	38
<b>BALANCE AT DECEMBER 31</b>	<b>2,290</b>	<b>1,653</b>

17 LONG-TERM LIABILITIES	less than 1 year	Remaining terms between 1-3 years	between 4-5 years	over 5 years	Total 2004	Total 2003
<b>CAPITAL MARKET:</b>						
Borrowings	787	234	1,024	1,606	3,651	3,992
<b>OTHER:</b>						
Miscellaneous long-term liabilities	59	171	112	283	625	700
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>846</b>	<b>405</b>	<b>1,136</b>	<b>1,889</b>	<b>4,276</b>	<b>4,692</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 2,733 million.

The market value of total long-term liabilities amounts to EUR 4,488 million (2003: EUR 5,053 million).

The following table provides the detail of long-term liabilities:

	Period	Coupon date	2004	2003
USD 200 mln 6¾% Domestic Debentures (Transamerica Corp.)	1996/06	May/Nov 15	146	158
USD 100 mln 9¾% Domestic Debentures (Transamerica Corp.)	1996/08	March/Sept 1	73	79
CHF 150 mln 3¼% Bonds	1997/04	June 24	–	96
USD 500 mln 7% Eurobonds (AEGON Funding Corp.)	1999/04	September 10	–	396
CHF 300 mln 3½% Eurobonds	1999/04	September 27	–	193
GBP 250 mln 6½% Eurobonds	1999/31	December 15	355	355
USD 250 mln 7¾% Eurobonds (AEGON Funding Corp.)	2000/05	July 25	172	198
CHF 150 mln MTN floating	2001/04	Semi-annual	–	96
EUR 350 mln 4¾% Eurobonds (AEGON Funding Corp. II)	2001/05	February 28	350	350
USD 200 mln MTN floating	2002/04	Quarterly	–	160
USD 250 mln floating rate senior notes	2003/05	Quarterly	184	198
JPY 10,000 mln MTN floating	2003/05	Semi-annual	72	74
EUR 1,000 mln MTN 4½%	2003/08	April 16	1,000	1,000
USD 750 mln 4¾% senior notes	2003/13	Semi-annual	550	594
EUR 500 mln MTN 4½%	2004/14	December 8	500	–
EUR 75 mln 4½%	2004/19	December 9	75	–
Other (including swaps) <sup>1</sup>			799	745
			<b>4,276</b>	<b>4,692</b>

<sup>1</sup>Of which EUR 37 million relate to AEGON N.V. (2003: EUR (58) million).

18 DEPOSITS WITHHELD FROM REINSURERS	2004	2003
Amounts due	484	463

This item represents liabilities to reinsurers in connection with assets withheld under reinsurance treaties executed on a funds withheld basis. The term to maturity of these liabilities exceeds one year.

19 OTHER PAYABLES	2004	2003
Investment creditors and other creditors	2,443	1,710
Taxes and social security	20	0
Other	1,071	1,981
<b>TOTAL OTHER PAYABLES</b>	<b>3,534</b>	<b>3,691</b>

20 ACCRUALS AND DEFERRED INCOME	2004	2003
Accrued interest	435	675
Deferred gains and losses on fixed rate investments	1,429	1,223
<b>TOTAL ACCRUALS AND DEFERRED INCOME</b>	<b>1,864</b>	<b>1,898</b>

## 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. Premiums 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 income from group companies and participations, actual dividends received and rental income due.

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.

### LEASING REVENUES

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.

### 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	2004 Total	2003		Life	Non-life	2002 Total
				Life	Non-life			
Direct premiums	15,167	3,006	18,173	14,956	3,061	18,017	16,581	3,320
Incoming reinsurance premiums	1,202	125	1,327	1,253	198	1,451	1,160	295
<b>TOTAL GROSS PREMIUMS</b>	<b>16,369</b>	<b>3,131</b>	<b>19,500</b>	<b>16,209</b>	<b>3,259</b>	<b>19,468</b>	<b>17,741</b>	<b>3,615</b>
Reinsurance ceded	(2,154)	(456)	(2,610)	(1,763)	(500)	(2,263)	(1,977)	(555)
	14,215	2,675	16,890	14,446	2,759	17,205	15,764	3,060
								18,824

**21 ANALYSIS OF PREMIUMS LIFE INSURANCE**
**2004**

	Life insurance			Investments for account of policyholders		
	Gross	Reinsurance	Own account	Gross	Reinsurance	Own account
	INCOMING REINSURANCE	1,113	(183)	930	89	(10)
<b>INSURANCE</b>						
<b>RECURRING:</b>						
Individual						
– without profit sharing	3,275	(681)	2,594	2,158	(29)	2,129
– with profit sharing	264	0	264	229	(2)	227
<b>TOTAL</b>	<b>3,539</b>	<b>(681)</b>	<b>2,858</b>	<b>2,387</b>	<b>(31)</b>	<b>2,356</b>
Group						
– without profit sharing	561	(140)	421	1,075	(2)	1,073
– with profit sharing	248	(5)	243	841	(42)	799
<b>TOTAL</b>	<b>809</b>	<b>(145)</b>	<b>664</b>	<b>1,916</b>	<b>(44)</b>	<b>1,872</b>
<b>TOTAL RECURRING</b>	<b>4,348</b>	<b>(826)</b>	<b>3,522</b>	<b>4,303</b>	<b>(75)</b>	<b>4,228</b>
<b>SINGLE:</b>						
Individual						
– without profit sharing	1,047	0	1,047	2,837	(1,006)	1,831
– with profit sharing	160	0	160	7	(55)	(48)
<b>TOTAL</b>	<b>1,207</b>	<b>0</b>	<b>1,207</b>	<b>2,844</b>	<b>(1,061)</b>	<b>1,783</b>
Group						
– without profit sharing	228	0	228	1,385	0	1,385
– with profit sharing	485	(1)	484	367	2	369
<b>TOTAL</b>	<b>713</b>	<b>(1)</b>	<b>712</b>	<b>1,752</b>	<b>2</b>	<b>1,754</b>
<b>TOTAL SINGLE</b>	<b>1,920</b>	<b>(1)</b>	<b>1,919</b>	<b>4,596</b>	<b>(1,059)</b>	<b>3,537</b>
<b>TOTAL PREMIUMS</b>	<b>7,381</b>	<b>(1,010)</b>	<b>6,371</b>	<b>8,988</b>	<b>(1,144)</b>	<b>7,844</b>
<b>GRAND TOTAL</b>				<b>16,369</b>	<b>(2,154)</b>	<b>14,215</b>

**2003**

	Life insurance			Investments for account of policyholders		
	Gross	Reinsurance	Own account	Gross	Reinsurance	Own account
	INCOMING REINSURANCE	1,055	(207)	848	198	(14)
<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>

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### 21 ANALYSIS OF PREMIUMS LIFE INSURANCE (CONTINUED)

2003	Life insurance			Investments for account of policyholders		
	Gross	Reinsurance	Own account	Gross	Reinsurance	Own account
<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>
 <b>2002</b>						
	Life insurance			Investments for account of policyholders		
	Gross	Reinsurance	Own account	Gross	Reinsurance	Own account
<b>INCOMING REINSURANCE</b>	<b>1,120</b>	<b>(239)</b>	<b>881</b>	<b>40</b>	<b>(13)</b>	<b>27</b>
<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>
 <b>SINGLE:</b>						
Individual						
– without profit sharing	1,047	0	1,047	3,080	(867)	2,213
– with profit sharing	185	0	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	0	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>

**22 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>2004</b>								
Gross premiums	2,318	200	165	39	330	48	31	3,131
Gross premiums earned	2,021	201	163	39	332	49	31	2,836
Gross claims incurred	(1,144)	(154)	(110)	(29)	(151)	(31)	(20)	(1,639)
Gross operating expenses	(913)	(54)	(44)	(12)	(116)	(20)	(9)	(1,168)
Balance of reinsurance ceded	(39)	(6)	3	(1)	(20)	0	0	(63)
	(75)	(13)	12	(3)	45	(2)	2	(34)
Investment income	229	21	14	5	16	9	6	300
Fees and commissions	165	0	0	0	0	0	0	165
Investment charges	(5)	(1)	1	0	0	1	0	(4)
Balance of other items	(9)	0	0	0	(1)	0	0	(10)
Investment income allocated to the non-technical account	(12)	(3)	(1)	(1)	(2)	0	(1)	(20)
<b>RESULT TECHNICAL ACCOUNT NON-LIFE</b>	<b>293</b>	<b>4</b>	<b>26</b>	<b>1</b>	<b>58</b>	<b>8</b>	<b>7</b>	<b>397</b>
<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	213	18	14	2	17	8	1	273
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>258</b>	<b>(7)</b>	<b>22</b>	<b>1</b>	<b>28</b>	<b>(2)</b>	<b>5</b>	<b>305</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	215	11	4	2	20	8	1	261
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>220</b>	<b>(10)</b>	<b>2</b>	<b>2</b>	<b>12</b>	<b>10</b>	<b>10</b>	<b>246</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>2004</b>								
Americas	100	–	–	–	–	–	–	100
The Netherlands	94	122	100	109	85	102	135	100
Other countries	94	92	83	79	86	123	56	88
<b>TOTAL</b>	<b>100</b>	<b>107</b>	<b>93</b>	<b>109</b>	<b>86</b>	<b>105</b>	<b>94</b>	<b>98</b>
<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>

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.

23 INVESTMENT INCOME		Life	Non-life	Non-technical	Total
<b>2004</b>					
Income from participations		21	0	0	21
<b>Group companies:</b>					
Income from other investments					
Real estate <sup>1</sup>	236	5	0	241	
Shares	668	13	0	681	
Bonds and other fixed rate securities	3,580	263	0	3,843	
Loans guaranteed by mortgage	881	4	0	885	
Other loans	1,124	5	0	1,129	
Deposits with credit institutions	1	0	0	1	
Other financial investments	264	3	0	267	
Interest on liquid assets and other	77	7	0	84	
<b>TOTAL</b>	<b>6,852</b>	<b>300</b>	<b>0</b>	<b>7,152</b>	
<b>2003</b>					
Income from participations		60	0	0	60
<b>Group companies:</b>					
Income from other investments					
Real estate <sup>1</sup>	94	0	0	94	
Shares	(54)	(13)	0	(67)	
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	0	1,217	
Deposits with credit institutions	3	0	0	3	
Other financial investments	176	11	0	187	
Interest on liquid assets and other	57	4	0	61	
<b>TOTAL</b>	<b>6,178</b>	<b>273</b>	<b>0</b>	<b>6,451</b>	
<b>2002</b>					
Income from participations		20	0	0	20
<b>Group companies:</b>					
Income from other investments					
Real estate <sup>1</sup>	187	8	0	195	
Shares	(1,195)	(56)	0	(1,251)	
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	0	1,537	
Deposits with credit institutions	7	0	0	7	
Other financial investments	190	0	0	190	
Interest on liquid assets and other	13	3	0	16	
<b>TOTAL</b>	<b>5,985</b>	<b>261</b>	<b>0</b>	<b>6,246</b>	

<sup>1</sup>Of which allocated internal rent for real estate for AEGON's own use is EUR 8 million (2003: EUR 11 million and 2002: EUR 14 million), based on current market conditions.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### 24 FEES AND COMMISSIONS

	Life	Non-life	Non-technical	Total
<b>2004</b>				
Fee income from asset management	543	0	–	543
Sales commissions	525	0	–	525
Other fee and commission income	11	165	–	176
<b>TOTAL</b>	<b>1,079</b>	<b>165</b>	<b>–</b>	<b>1,244</b>
<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>

### 25 INCOME FROM BANKING ACTIVITIES

	2004	2003	2002
Bonds and other fixed rate securities	69	61	54
Loans guaranteed by mortgage	38	51	51
Other loans	20	40	68
Other investments and liquid assets	157	202	243
<b>TOTAL</b>	<b>284</b>	<b>354</b>	<b>416</b>

### 26 CHANGE IN TECHNICAL PROVISIONS

	2004	2003	2002
Technical provisions	5,384	5,165	5,311
Technical provisions with investments for account of policyholders	8,532	14,141	(9,279)
	13,916	19,306	(3,968)
Investment income for account of policyholders	(8,484)	(12,858)	11,524
<b>CHANGE IN TECHNICAL PROVISIONS</b>	<b>5,432</b>	<b>6,448</b>	<b>7,556</b>

### 27 PROFIT SHARING AND REBATES

	2004	2003	2002
Amortization of interest rate rebates	59	72	84
Surplus interest bonuses	25	28	38
Profit appropriated to policyholders	77	71	67
<b>TOTAL</b>	<b>161</b>	<b>171</b>	<b>189</b>

Granted interest rate rebates amount to EUR 25 million (2003: EUR 38 million and 2002: EUR 50 million), entirely relating to the Dutch companies.

<b>28 OPERATING EXPENSES</b>				
	Life	Non-life	Non-technical	Total
<b>2004</b>				
Acquisition costs	1,927	743	–	2,670
Deferred policy acquisition costs	(1,465)	(208)	–	(1,673)
Amortization of deferred policy acquisition costs	1,270	229	–	1,499
Administrative expenses	1,732	764	–	2,496
Commissions and profit sharing from reinsurers	2,422	403	–	2,825
Banking and other activities	(137)	(101)	–	(238)
<b>TOTAL OPERATING EXPENSES</b>	<b>4,017</b>	<b>1,066</b>	<b>439</b>	<b>5,522</b>
Investment expenses				234
Commissions and expenses				5,756
<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	1,398	273	–	1,671
Administrative expenses	1,766	862	–	2,628
Commissions and profit sharing from reinsurers	2,298	428	–	2,726
Banking and other activities	(247)	(134)	–	(381)
<b>TOTAL OPERATING EXPENSES</b>	<b>3,817</b>	<b>1,156</b>	<b>140</b>	<b>5,113</b>
Investment expenses				217
Commissions and expenses				5,330
<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	1,451	328	–	1,779
Administrative expenses	1,815	993	–	2,808
Commissions and profit sharing from reinsurers	1,917	450	–	2,367
Banking and other activities	(253)	(138)	–	(391)
<b>TOTAL OPERATING EXPENSES</b>	<b>3,479</b>	<b>1,305</b>	<b>125</b>	<b>4,909</b>
Investment expenses				234
Commissions and expenses				5,143
Technical and non-technical accounts include the following:				
Salaries	1,191	1,178	1,206	
Pension premiums	211	90	(92)	
Other social security charges	196	208	205	
Other expenses	1,513	1,344	1,300	
Total expenses	3,111	2,820	2,619	
Commissions	3,057	3,358	4,023	
Deferred policy acquisition costs	(1,673)	(2,138)	(2,887)	
Amortization of deferred policy acquisition costs	1,499	1,671	1,779	
Commissions and profit sharing from reinsurers	(238)	(381)	(391)	
<b>COMMISSIONS AND EXPENSES</b>	<b>5,756</b>	<b>5,330</b>	<b>5,143</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 8 million (2003: EUR 11 million and 2002: EUR 14 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 are 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 2004, 2003, and 2002 plans amounted to EUR 35 million (2003: EUR 20 million). The change in market value is recognized in other expenses and amounted to EUR 15 million for 2004 (2003: EUR 20 million and 2002: nil).

AEGON has 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 AEGON 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 exceeds 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 100) 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 is 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 their 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 in 2004 was 27,906 of which 5,146 were agent-employees (2003: 28,521 of which 5,136 were agent-employees and 2002: 25,903 of which 3,985 were agent-employees). The specification per geographical area is as follows:

	2004	2003	2002
Americas	14,773	14,921	15,628
The Netherlands	5,940	6,016	2,986
United Kingdom	4,620	5,130	4,942
Other countries	2,573	2,454	2,347
<b>TOTAL</b>	<b>27,906</b>	<b>28,521</b>	<b>25,903</b>

The average number of employees of joint ventures have been included proportionally. The total number employed at these joint ventures in 2004 was 559 (2003: 333 and 2002: 49).

## REMUNERATION OF ACTIVE AND RETIRED MEMBERS OF THE EXECUTIVE BOARD

Amounts in EUR thousands

	Salary	Performance related					Total
		Cash <sup>2</sup>	Shares <sup>3</sup>	Total	Pension		
<b>2004</b>							
D.J. Shepard	804 <sup>1</sup>	1,878 <sup>4</sup>	188	2,066	226	3,096	
J.B.M. Streppel	668 <sup>5</sup>	144	144	288	227	1,183	
J.G. van der Werf	566 <sup>5</sup>	144	144	288	192	1,046	
A.R. Wynaedts	566 <sup>5</sup>	102	102	204	192	962	
<b>TOTAL FOR ACTIVE MEMBERS</b>	<b>2,604</b>	<b>2,268</b>	<b>578</b>	<b>2,846</b>	<b>837</b>	<b>6,287</b>	
P. van de Geijn (pro rata for the year 2003)	–	241	–	241	–	241	
<b>TOTAL</b>	<b>2,604</b>	<b>2,509</b>	<b>578</b>	<b>3,087</b>	<b>837</b>	<b>6,528</b>	
<b>2003</b>							
D.J. Shepard	884 <sup>1</sup>	1,207 <sup>4</sup>	–	1,207	229	2,320	
J.B.M. Streppel	652 <sup>5</sup>	0	–	0	221	873	
J.G. van der Werf	552 <sup>5</sup>	0	–	0	187	739	
A.R. Wynaedts (as of April 17, 2003)	380 <sup>5</sup>	0	–	0	129	509	
<b>TOTAL FOR ACTIVE MEMBERS</b>	<b>2,468</b>	<b>1,207</b>	<b>–</b>	<b>1,207</b>	<b>766</b>	<b>4,441</b>	
P. van de Geijn (up to October 31, 2003)	420 <sup>5</sup>	0	–	0	143	563	
<b>TOTAL</b>	<b>2,888</b>	<b>1,207</b>	<b>–</b>	<b>1,207</b>	<b>909</b>	<b>5,004</b>	
<b>2002</b>							
D.J. Shepard	1,056 <sup>1</sup>	992	–	992	287	2,335	
P. van de Geijn	495 <sup>5</sup>	215	–	215	49	759	
J.B.M. Streppel	495 <sup>5</sup>	215	–	215	49	759	
J.G. van der Werf (as of April 18, 2002)	364 <sup>5</sup>	–	–	–	36	400	
<b>TOTAL FOR ACTIVE MEMBERS</b>	<b>2,410</b>	<b>1,422</b>	<b>–</b>	<b>1,422</b>	<b>421</b>	<b>4,253</b>	
K.J. Storm (up to June 30, 2002)	328	291	–	291	1,500	2,119	
<b>TOTAL</b>	<b>2,738</b>	<b>1,713</b>	<b>–</b>	<b>1,713</b>	<b>1,921</b>	<b>6,372</b>	

<sup>1</sup>Mr. Shepard earns a salary of USD 1 million.

<sup>2</sup>Under the 2003 as well as the 2002 Short Term Incentive plan, Mr. Shepard may be entitled to receive USD 50,000 per percentage point increase in the preceding year's earnings per share. The other members of the Executive Board may be entitled to receive EUR 32,432 over 2003 and EUR 31,765 over 2002 per percentage 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 ceiling of 150% of the relevant year's salary. As of the STI-plan 2003, Executive Board members can opt for payment in cash or in shares. No bonuses were paid in 2003, relating to 2002.

<sup>3</sup>All the members of the Executive Board have opted for payment of half of the cash value of their 2003 STI bonus in AEGON N.V. common shares, which shares are restricted (non-transferable) for a period of three years. The number of shares for each member was: Mr. Shepard 16,143, Mr. Streppel 12,409, Mr. Van der Werf 12,409 and Mr. Wynaedts 8,771. After the three-year holding period, the Executive Board members will be entitled to bonus shares, provided that they are still employed by AEGON. The number of bonus shares will be calculated through performance based matching, on the basis of earnings per share growth over inflation in the preceding three years, i.e. 2004, 2005, and 2006. The number of bonus shares can vary from 0% to 100% of the number of shares shown in front of this.

<sup>4</sup>In addition to the Short Term Incentive plan, Mr. Shepard earned a short-term incentive 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). The relevant amounts have been paid in US dollars and are recognized above in euro against the weighted average exchange rate.

<sup>5</sup>Base salary including increase from Dutch collective labor agreement, the employee profit sharing bonus (for 2004 and 2002 only) as well as a tax deferred employee savings scheme.

In accordance with the 2004-2006 Long Term Incentive plan, AEGON common shares and options were conditionally granted in December 2004 over the year 2004 to each of the Executive Board members, which following the plan criteria will not vest until 2006 and are conditional upon the attainment of the agreed performance.

The numbers of these performance shares and performance options are:

	Shares	Options
D.J. Shepard	35,767	71,534
J.B.M. Streppel	16,661	33,322
J.G. van der Werf	14,106	28,212
A.R. Wynaedts	14,106	28,212
<b>TOTAL</b>	<b>80,640</b>	<b>161,280</b>

For a detailed description of the remuneration policy regarding the members of the Executive Board refer to page 14.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### STOCK OPTIONS INCLUDING STOCK APPRECIATION RIGHTS AND INTERESTS IN AEGON N.V. 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	46.95			200,000	–	–	–	–	–
	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	
			50,000 <sup>1</sup>	10.56	0	–	–	50,000 <sup>1</sup>	10.56	316,669
J.B.M. Streppel	40,000 <sup>1</sup>	46.95			40,000	–	–	–	–	–
	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	
			50,000 <sup>1</sup>	10.56	0	–	–	50,000 <sup>1</sup>	10.56	12,953
J.G. van der Werf	48,000	46.95			48,000	–	–	–	–	–
	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	
			50,000 <sup>1</sup>	10.56	0	–	–	50,000 <sup>1</sup>	10.56	134,552
A.R. Wynaedts	36,000 <sup>1</sup>	46.95			36,000	–	–	–	–	–
	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	
			50,000 <sup>1</sup>	10.56	0	–	–	50,000 <sup>1</sup>	10.56	9,155

<sup>1</sup>Stock appreciation rights. For a description refer to page 141.

<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 under the LTI plan in force until December 31, 2003, 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. Should the AEGON share price performance achieve a top three position, each Executive Board member would receive 200,000 rights. Should this share price performance finish in the middle group (of four companies), each Executive Board member would earn 100,000 rights. Should the share price performance rank in the bottom group (three companies), 50,000 rights would be granted.
3. If there is no increase in earnings per share, no rights will be granted.

At the end of the plan term it was determined that 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 received 50,000 SARs in 2004.

At the balance sheet date, the following members of the Executive Board had loans with AEGON or any AEGON related company: Mr. Streppel had a 5% mortgage loan of EUR 680,700, Mr. Van der Werf had a mortgage loan of EUR 1,240,000 at a 2.85% floating rate at year-end and Mr. Wynaedts 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 2004. The terms of these loans have not been amended.

#### SEVERANCE PAYMENT ARRANGEMENTS

In the employment contracts with the current Executive Board members, the following specific severance payment arrangements regulate their entitlements in the event AEGON terminates their membership on the Executive Board.

Termination of employment of Mr. Shepard by AEGON other than for urgent cause, death, disability, voluntary resignation or retirement, shall entitle Mr. Shepard to three years' base salary. In addition, he shall be entitled to receive an amount equal to the aggregate short-term incentive compensation he received during the three years prior to the termination. In such a case, the other Executive Board members have no specific financial arrangement.

In the event of termination of employment by AEGON in connection with a merger, takeover or fundamental changes of policy and related organizational amendments or by Mr. Shepard in the event his responsibilities or position are diminished by such circumstances, AEGON will pay Mr. Shepard compensation in the amount of three years' base salary. Furthermore, he shall be entitled to receive an amount equal to the aggregate STI compensation he received during the three years prior to the termination and such severance payments shall be taken into account in determining the amounts payable to Mr. Shepard under his AEGON USA Supplemental Executive Retirement Plan and three additional years of service will be credited for the purpose of calculating his benefit thereunder. Mr. Streppel would be entitled to compensation according to the 'Zwartkruis formula', which means that the severance payment would be calculated on the basis of and depending on age, years of service, functional level and the probability of finding an equivalent position.

Messrs. Van der Werf and Wynaedts would be entitled to three years' fixed salary, only in case of termination in connection with a merger or takeover.

#### REMUNERATION OF ACTIVE AND RETIRED MEMBERS OF THE SUPERVISORY BOARD

In EUR

	2004	2003	2002
M. Tabaksblat	56,722	56,722	56,722
H. de Ruiter	–	45,378	45,378
I.W. Bailey, II (as of April 22, 2004)	23,562	–	–
R. Dahan (as of April 22, 2004)	23,562	–	–
D.G. Eustace	58,904	48,214	45,378
O.J. Olcay	34,034	34,034	34,034
K.M.H. Peijs	–	–	34,034
G.A. Posthumus	–	–	45,378
T. Rembe	51,050	48,214	36,870
W.F.C. Stevens	48,214	39,706	34,034
K.J. Storm (as of July 1, 2002)	34,034	34,034	17,017
P.R. Voser (as of April 22, 2004)	34,906	–	–
F.J. de Wit	–	34,034	34,034
L.M. van Wijk (as of April 17, 2003)	34,034	21,205	–
<b>TOTAL FOR ACTIVE MEMBERS</b>	<b>399,022</b>	<b>361,541</b>	<b>382,879</b>
H. de Ruiter (up to April 22, 2004)	14,137	–	–
F.J. de Wit (up to April 22, 2004)	10,603	–	–
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>423,762</b>	<b>391,298</b>	<b>382,879</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 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	46.95	200,000	–	–	–	–
	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 of the Executive Board in the related years.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### COMMON SHARES HELD BY SUPERVISORY BOARD MEMBERS

	Shares held in AEGON at December 31, 2004
I.W. Bailey, II	29,759
R. Dahan	25,000
M. Tabaksblat	7,980
T. Rembe	6,658
K.J. Storm	276,479
<b>TOTAL</b>	<b>345,876</b>

### 29 INVESTMENT CHARGES

	Life	Non-life	Non- technical	Total
<b>2004</b>				
Investment expenses and interest charges	286	4	608	898
<b>2003</b>				
Investment expenses and interest charges	217	3	642	862
<b>2002</b>				
Investment expenses and interest charges	271	2	691	964

### 30 MISCELLANEOUS INCOME AND EXPENDITURE

	Life	Non-life	Non- technical	Total
<b>2004</b>				
Addition to provision for doubtful debts	237	0	11	248
Currency exchange rate differences	(9)	0	(5)	(14)
Other income and expenditure	(99)	10	(4)	(93)
<b>TOTAL</b>	<b>129</b>	<b>10</b>	<b>2</b>	<b>141</b>
<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>

### 31 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.

### 32 EXCEPTIONAL ITEMS

In February 2005, AEGON settled legal proceedings brought by Banque Internationale à Luxembourg S.A. (BIL) and Dexia Bank Belgium S.A. (Dexia) in connection with AEGON's sale in 2000 of Labouchere, at that time a subsidiary company of AEGON. Dexia had alleged that AEGON had made certain misrepresentations and breached certain warranties contained in the purchase agreement. The alleged misrepresentations and breaches of warranties related to securities leasing products sold by Labouchere. Without admitting the claims brought by BIL and Dexia, AEGON agreed to pay EUR 218 million in cash to BIL and Dexia in full and final settlement of all and any claims in this regard. The settlement amount was paid on February 14, 2005. The payment was accounted for as an exceptional item in the 2004 results.

### 33 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 2004 was 24% compared to 32% for 2003. The decline primarily reflects higher realized gains on tax preferred investments in the Netherlands and a one-time reduction in taxes related to the repatriation of accumulated earnings from Canada to the United States pursuant to the America Jobs Creation Act. The low effective tax rate of 11% 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.

	2004	2003	2002
Breakdown:			
Taxes currently due	633	552	419
Taxes deferred due to temporary differences	(122)	(174)	(455)
<b>TOTAL</b>	<b>511</b>	<b>378</b>	<b>(36)</b>

The statutory tax rates on profits are as follows:

	2004 %	2003 %	2002 %
United States	35.0	35.0	35.0
Canada	34.3	35.8	38.3
Netherlands	34.5	34.5	34.5
United Kingdom	30.0	30.0	30.0

In the Netherlands the statutory tax rate reduced to 31.5% as of January 1, 2005. The tax rate will further reduce in 2006 to 30.5% and to 30% in 2007.

Based on profits earned for the year, a nominal tax charge at 34.0% on profits (2003: 33.6%) would be expected. The following is a reconciliation of the tax charge based on nominal rates to the tax charge based on effective rates:

	2004	2003	2002
Statutory tax rate	735	398	(142)
Increases (decreases) in taxes resulting from:			
– dividend income exclusions and credits	(184)	(22)	194
– depreciation of equipment and real estate	(2)	(2)	(2)
– valuation of technical provisions	0	0	0
– other, net	(38)	4	(86)
<b>ACTUAL TAX EXPENSE</b>	<b>511</b>	<b>378</b>	<b>(36)</b>

Amounts paid in cash in 2004 for income taxes totaled EUR 187 million (2003: EUR 365 million and 2002: EUR 311 million).

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### 34 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.

	2004	2003	2002
Net income	1,663	1,033	(228)
Dividend on preferred shares	(79)	(95)	(30)
Net income available for common shareholders	1,584	938	(258)
Interest on convertible debt	–	–	–
<b>NET INCOME USED IN CALCULATION DILUTED NET INCOME PER SHARE</b>	<b>1,584</b>	<b>938</b>	<b>(258)</b>
Numbers in millions			
Weighted average number of common shares outstanding	1,507	1,476	1,458
Dilutive effects from:			
– options	–	–	–
– convertible debt	–	–	–
<b>MAXIMUM WEIGHTED AVERAGE NUMBER OF COMMON SHARES</b>	<b>1,507</b>	<b>1,476</b>	<b>1,458</b>
Amounts in EUR			
Net income per share	1.05	0.64	(0.18)
Net income per share fully diluted	1.05	0.64	(0.18)

### 35 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, at least 5% capital securities, and a maximum of 25% subordinated and senior debt.

	2004	%	2003	%
Shareholders' equity	14,413	71.5	13,947	71.1
Capital securities	3,212	15.9	1,925	9.8
Subordinated loans	254	1.3	452	2.3
Senior debt related to insurance activities	2,270	11.3	3,288	16.8
<b>TOTAL CAPITAL BASE</b>	<b>20,149</b>	<b>100.0</b>	<b>19,612</b>	<b>100.0</b>

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. At December 31, 2004, the combined risk-based capital ratio of AEGON's life insurance subsidiaries in the United States was 370%. Under the Insurance Industry Supervision Act 1993 in the Netherlands, life insurance companies are required to maintain equity of amongst others 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, 2004, the solvency as a percentage of the locally required solvency margin was well in excess of the minimum ratio. The Financial Services Authority 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, 2004, the free assets ratio of Scottish Equitable plc was 11.5%.

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 implemented in Dutch legislation. 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:

	2004	2003
Liability capital of the group	17,879	16,324
Required solvency margin	7,359	7,354
Solvency surplus	10,520	8,970
Solvency as a percentage of required solvency margin	243	222

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, 2004, the issued and outstanding capital is EUR 243 million, the reserves required by law amount to EUR 1,448 million and EUR 12,722 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.

## **36 DERIVATIVES**

### **ACCOUNTING POLICY**

In general, the accounting treatment of derivatives mirrors the accounting treatment of the underlying financial instrument. In the balance sheet, the book values, if any, of the derivatives are recognized under the captions of the related underlying financial instrument. In the income statement the interest income and expenses of the derivatives are included in the same line-item as the underlying financial instrument.

Realized and unrealized results on derivative financial instruments are recognized in the same period and are included in the same line-items as the results of the related investments, liabilities and borrowings.

Derivatives denominated in foreign currency amounts are converted at the year-end exchange rates.

### **TYPES OF DERIVATIVES**

AEGON uses derivative financial instruments to hedge its exposures related to investments, liabilities and borrowings, to optimize credit risk exposure and as part of its ordinary underwriting activities.

Interest rate contracts are used to manage AEGON's exposure to interest rate risks. These contracts are designated as economic hedges to AEGON's risk exposures. The main types of derivative financial instruments used are interest rate swaps, swaptions, caps/floors and forward rate agreements/futures:

- 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 notional amount.
- A swaption is an option to enter into an interest rate swap at a specific future date.
- Caps/floors are contracts to settle the difference between a market interest rate and a certain strike rate for a certain period of time on a specified notional amount.
- Forward rate agreements/futures are commitments to purchase or sell a financial instrument at a future date for a specific price.

Foreign exchange contracts are used to manage AEGON's exposure on its net investment in subsidiaries denominated in foreign currencies and other investments. The main types of derivative financial instruments used are cross currency swaps and forward foreign exchange contracts:

- 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 predetermined rate of exchange.
- A forward foreign exchange contract is an agreement that obligates its parties to purchase/sell a predetermined amount of foreign currency at a specified exchange rate at a specified future date.

Other derivative transactions are used to manage equity and credit related exposures. The main types of derivative financial instruments used are equity swaps, options, futures and credit derivatives:

- 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.
- 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.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

- Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price.
- Credit derivatives are contracts between two parties that allow for transfer of credit risk from one party to another. The party transferring the risk has to pay a fee to the party that assumes 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 or settle net in cash. AEGON uses credit derivatives to hedge credit exposures.
  - Credit derivatives are also 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. Another strategy is to synthetically replicate corporate credit exposures with credit derivatives. 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 the bond credit desk but may not be available under the same terms and conditions in the cash bond market.

A separate category of derivatives is the synthetic guaranteed investment contracts (GICs). Synthetic GICs guarantee to plan sponsors benefit responsiveness, in the event that qualified plan benefit requests exceed plan cash flows. AEGON writes these contracts as part of its ordinary course of business. The synthetic GICs are presented as off balance sheet assets and are part of the off balance sheet assets as disclosed on page 128; realized results are recognized in income.

### CREDIT MITIGATION

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 its counterparties' 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 2004	Market value 2004	Book value 2004	Notional amounts 2003	Market value 2003	Book value 2003
<b>INTEREST RATE CONTRACTS</b>						
Interest rate swaps	36,639	247	132	31,274	(115)	146
Swaptions	3	0	0	40	0	0
Caps/floors	237	5	2	312	14	3
Forward rate agreements	26	(2)	(1)	136	14	0
<b>OTHER DERIVATIVE CONTRACTS</b>						
Cross currency swaps	4,616	690	618	5,730	622	596
Forward foreign exchange contracts	4,395	87	87	3,428	78	79
Equity swaps	941	(31)	(27)	2,004	(346)	36
Over-the-counter options	41	8	6	77	41	39
Credit derivatives	1,588	6	0	1,469	2	(2)
Exchange traded options/futures	819	5	32	1,380	15	(1)
Synthetic GICs	29,818	0	–	30,794	0	–

### 37 COMMITMENTS AND CONTINGENCIES

	2004	2003
<b>INVESTMENTS CONTRACTED</b>		
Real estate	15	(5)
Mortgage loans	490	392
Bonds and registered debentures:		
Purchase	306	0
Sale	0	(51)
Private placements	75	16
Other:		
Purchase	730	451
Sale	0	0

### FUTURE LEASE PAYMENTS

Under non-cancelable operating lease contracts for office buildings, future minimum lease payments amount to:

	2004	2003
Less than one year	100	77
Between one and five years	319	212
More than five years	319	194
	<b>738</b>	<b>483</b>

A significant portion of operating leases is for agency and administration offices.

### COLLATERAL AND GUARANTEES GIVEN TO THIRD PARTIES

	2004	2003
Bonds and registered debentures	2,767	2,373
Ceded and securitized mortgage loans	5,802	5,091
Standby letters of credit	52	74
Guarantees	68	287
Other commitments	4	0
Other collateral and guarantees	747	559

The bonds and other fixed rate investments function mainly as collateral granted by AEGON subsidiaries abroad to meet legal requirements and 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.

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 fulfillment of contractual obligations.

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.

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Amounts in EUR millions

### 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
- management of mutual funds in the retail business.

For all services the related assets are owned by customers and therefore they do not appear on the balance sheet of AEGON. Total assets involved in these operations amount to EUR 69 billion (USD 94 billion), (2003: EUR 63 billion, USD 79 billion).

AEGON Levensverzekering N.V. has four publicly placed and two privately placed securitization programs outstanding with a total size of EUR 4.7 billion.

In 2004, AEGON Levensverzekering N.V. completed one publicly placed securitization transaction whereby the economic ownership of EUR 1.1 billion of aggregate mortgage receivables was conveyed to a special purpose company. This company funded this purchase with the issuance 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 company. The special purpose company has the right to notify the borrowers upon the occurrence of certain predefined 'notification events'. A first 'undisclosed' right of pledge on the mortgage receivables was given to the special purpose company. 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 the transaction, after a period of seven years, the interest of the notes issued by the special purpose company will step-up, together with a similar step-up in the fixed-floating swap agreement. At this time, the special purpose company has the right to call the notes.

In 2003, AEGON Levensverzekering N.V. completed two mortgage-related publicly placed securitization programs of in total EUR 2.3 billion that were similarly structured as the above described 2004 securitization.

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### 38 LITIGATION

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.

## SEGMENT INFORMATION – REVENUES AND PRODUCTION

Amounts in millions

2004 USD	2003 USD	%		2004 EUR	2003 EUR	%
<b>REVENUES</b>						
2,388	2,006	19	Life general account single premiums	1,920	1,773	8
6,791	6,162	10	Life general account recurring premiums	5,461	5,448	0
5,716	5,593	2	Life policyholders account single premiums	4,596	4,945	(7)
5,462	4,573	19	Life policyholders account recurring premiums	4,392	4,043	9
20,357	18,334	11	Total life insurance gross premiums	16,369	16,209	1
2,883	2,786	3	Accident and health insurance premiums	2,318	2,463	(6)
1,011	900	12	General insurance premiums	813	796	2
24,251	22,020	10	Total gross premiums	19,500	19,468	0
8,894	7,297	22	Investment income insurance activities	7,152	6,451	11
1,547	1,381	12	Fees and commissions	1,244	1,221	2
353	401	(12)	Income from banking activities	284	354	(20)
35,045	31,099	13	Total revenues business units	28,180	27,494	2
414	38		Income from other activities	333	34	
<b>35,459</b>	<b>31,137</b>	<b>14</b>	<b>TOTAL REVENUES</b>	<b>28,513</b>	<b>27,528</b>	<b>4</b>
<b>REVENUES BY PRODUCT SEGMENT</b>						
29,470	26,727	10	Life insurance	23,697	23,629	0
3,359	3,306	2	Accident and health insurance	2,701	2,923	(8)
1,093	970	13	General insurance	879	858	2
353	401	(12)	Banking activities	284	354	(20)
414	38		Other activities	333	34	
770	(305)		Realized gains and losses on shares and real estate	619	(270)	
<b>35,459</b>	<b>31,137</b>	<b>14</b>	<b>TOTAL REVENUES</b>	<b>28,513</b>	<b>27,528</b>	<b>4</b>
<b>10,551</b>	<b>14,544</b>	<b>(27)</b>	<b>INVESTMENT INCOME FOR ACCOUNT OF POLICYHOLDERS</b>	<b>8,484</b>	<b>12,858</b>	<b>(34)</b>
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>						
8,122	7,097	14	Single premiums	6,531	6,274	4
2,076	2,169	(4)	Recurring premiums annualized	1,669	1,918	(13)
<b>2,888</b>	<b>2,879</b>	<b>0</b>	<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>2,322</b>	<b>2,545</b>	<b>(9)</b>
<b>DEPOSITS</b>						
3,017	5,220	(42)	Fixed annuities	2,426	4,615	(47)
9,487	9,412	1	GICs and funding agreements	7,629	8,321	(8)
5,640	6,370	(11)	Variable annuities	4,535	5,632	(19)
18,144	21,002	(14)	Total	14,590	18,568	(21)
3,583	3,279	9	Savings deposits	2,881	2,899	(1)
<b>21,727</b>	<b>24,281</b>	<b>(11)</b>	<b>TOTAL PRODUCTION ON BALANCE SHEET</b>	<b>17,471</b>	<b>21,467</b>	<b>(19)</b>
<b>NET DEPOSITS</b>						
(2,687)	707		Fixed annuities	(2,161)	625	
1,344	410		GICs and funding agreements	1,081	363	198
781	2,464	(68)	Variable annuities	628	2,178	(71)
(562)	3,581	(116)	Total	(452)	3,166	(114)
(366)	(998)	63	Savings deposits	(294)	(882)	67
<b>(928)</b>	<b>2,583</b>	<b>(136)</b>	<b>TOTAL NET DEPOSITS</b>	<b>(746)</b>	<b>2,284</b>	<b>(133)</b>
<b>OFF BALANCE SHEET PRODUCTION</b>						
7,260	13,242	(45)	Synthetic GICs	5,838	11,707	(50)
12,671	13,020	(3)	Mutual funds/Collective Trusts and other managed assets	10,189	11,511	(11)
<b>19,931</b>	<b>26,262</b>	<b>(24)</b>	<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>16,027</b>	<b>23,218</b>	<b>(31)</b>

## AMERICAS

Amounts in millions

	2004 USD	2003 USD	%	2004 EUR	2003 EUR	%
<b>INCOME BY PRODUCT SEGMENT</b>						
Traditional life	649	625	4	522	553	(6)
Fixed annuities	389	319	22	313	282	11
GICs and funding agreements	254	185	37	204	164	24
Life for account of policyholders	101	68	49	81	60	35
Variable annuities	200	68	194	161	60	168
Fee business	17	(20)	185	14	(18)	178
Life insurance	1,610	1,245	29	1,295	1,101	18
Accident and health insurance	321	254	26	258	224	15
Insurance income	1,931	1,499	29	1,553	1,325	17
of which general account	1,613	1,383	17	1,297	1,223	6
of which policyholders account <sup>1</sup>	318	116	174	256	102	151
<b>INCOME BEFORE REALIZED GAINS AND LOSSES</b>						
<b>ON SHARES AND REAL ESTATE</b>	<b>1,931</b>	<b>1,499</b>	<b>29</b>	<b>1,553</b>	<b>1,325</b>	<b>17</b>
Realized gains and losses on shares and real estate	276	(74)		222	(65)	
<b>INCOME BEFORE TAX</b>						
<b>Corporation tax</b>	<b>2,207</b>	<b>1,425</b>	<b>55</b>	<b>1,775</b>	<b>1,260</b>	<b>41</b>
<b>NET INCOME</b>	<b>1,569</b>	<b>1,034</b>	<b>52</b>	<b>1,262</b>	<b>914</b>	<b>38</b>
<b>REVENUES</b>						
Life general account single premiums	1,199	916	31	964	810	19
Life general account recurring premiums	5,002	4,747	5	4,022	4,197	(4)
Life policyholders account single premiums <sup>2</sup>	651	522	25	524	461	14
Life policyholders account recurring premiums <sup>2</sup>	1,252	779	61	1,007	689	46
Total life insurance gross premiums	8,104	6,964	16	6,517	6,157	6
Accident and health insurance premiums	2,541	2,508	1	2,043	2,217	(8)
Total gross premiums	10,645	9,472	12	8,560	8,374	2
Investment income insurance activities	6,687	6,100	10	5,377	5,393	(0)
Fees and commissions	1,009	966	4	811	854	(5)
<b>TOTAL REVENUES</b>	<b>18,341</b>	<b>16,538</b>	<b>11</b>	<b>14,748</b>	<b>14,621</b>	<b>1</b>
Investment income for account of policyholders	4,258	7,704	(45)	3,424	6,811	(50)
<b>GROSS MARGIN, COMMISSIONS AND EXPENSES</b>						
Gross margin	6,122	5,331	15	4,923	4,713	4
Commissions and expenses	4,191	3,832	9	3,370	3,388	(1)
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>						
Single premiums <sup>2</sup>	1,592	1,291	23	1,280	1,141	12
Recurring premiums annualized <sup>2</sup>	928	947	(2)	746	837	(11)
<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>1,087</b>	<b>1,076</b>	<b>1</b>	<b>874</b>	<b>951</b>	<b>(8)</b>
<b>DEPOSITS</b>						
Fixed annuities	3,017	5,220	(42)	2,426	4,615	(47)
GICs and funding agreements	9,487	9,412	1	7,629	8,321	(8)
Variable annuities	5,625	6,370	(12)	4,523	5,632	(20)
<b>TOTAL PRODUCTION ON BALANCE SHEET</b>	<b>18,129</b>	<b>21,002</b>	<b>(14)</b>	<b>14,578</b>	<b>18,568</b>	<b>(21)</b>
<b>OFF BALANCE SHEET PRODUCTION</b>						
Synthetic GICs	7,260	13,242	(45)	5,838	11,707	(50)
Mutual funds/Collective Trusts and other managed assets	11,175	8,305	35	8,986	7,343	22
<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>18,435</b>	<b>21,547</b>	<b>(14)</b>	<b>14,824</b>	<b>19,050</b>	<b>(22)</b>

<sup>1</sup>Includes also variable annuities and fee business.

<sup>2</sup>Effective January 1, 2004, for reasons of consistency, additional variable universal life premiums, in the past recognized as single premiums, have been reclassified to renewal premiums.

## THE NETHERLANDS

Amounts in EUR millions

	2004	2003	%
<b>INCOME BY PRODUCT SEGMENT</b>			
Traditional life	196	197	(1)
Life for account of policyholders	42	18	133
Fee business	28	13	115
Life insurance	266	228	17
Accident and health insurance	28	44	(36)
General insurance	36	11	
Insurance income	330	283	17
of which general account	260	252	3
of which policyholders account <sup>1</sup>	70	31	126
Insurance income	330	283	17
Banking activities <sup>2</sup>	22	20	10
<b>INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE</b>			<b>16</b>
Realized gains and losses on shares and real estate	352	303	
	368	(191)	
<b>INCOME BEFORE TAX</b>			
Corporation tax	720	112	
	(83)	(87)	(5)
<b>NET INCOME</b>			<b>25</b>
<b>REVENUES</b>			
Life general account single premiums	678	676	0
Life general account recurring premiums <sup>3</sup>	488	518	(6)
Life policyholders account single premiums	384	592	(35)
Life policyholders account recurring premiums <sup>3</sup>	1,529	1,461	5
Total life insurance gross premiums	3,079	3,247	(5)
Accident and health insurance premiums	187	163	15
General insurance premiums	445	459	(3)
Total gross premiums	3,711	3,869	(4)
Investment income insurance activities	1,479	806	83
Fees and commissions	297	265	12
Income from banking activities	284	354	(20)
<b>TOTAL REVENUES</b>			<b>5,771</b>
			<b>5,294</b>
			<b>9</b>
Investment income for account of policyholders	903	1,096	(18)
<b>GROSS MARGIN, COMMISSIONS AND EXPENSES</b>			
Gross margin	1,450	1,259	15
Commissions and expenses	1,098	956	15
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>			
Single premiums	1,037	1,164	(11)
Recurring premiums annualized	123	156	(21)
<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>			<b>227</b>
			<b>272</b>
			<b>(17)</b>
New premium production non-life insurance	63	54	17
<b>DEPOSITS</b>			
Savings deposits <sup>4</sup>	2,881	2,899	(1)
<b>TOTAL PRODUCTION ON BALANCE SHEET</b>			<b>2,881</b>
			<b>2,899</b>
			<b>(1)</b>
<b>OFF BALANCE SHEET PRODUCTION</b>			
Mutual funds and other managed assets	789	3,522	(78)
<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>			<b>789</b>
			<b>3,522</b>
			<b>(78)</b>

<sup>1</sup>Includes also fee business.

<sup>2</sup>Includes income on off balance sheet type products.

<sup>3</sup>Reflected in the column total year 2004 is a reclassification of EUR 62 million from general account recurring premiums to policyholders account recurring premiums relating to Q1 2004.

<sup>4</sup>Reflected in the column total year 2004 is an adjustment of EUR 410 million to savings deposits relating to Q1 2004.

## UNITED KINGDOM

Amounts in millions

	2004 GBP	2003 GBP	%	2004 EUR	2003 EUR	%
<b>INCOME BY PRODUCT SEGMENT</b>						
Traditional life	(7)	1		(11)	2	
Life for account of policyholders	154	128	20	227	184	23
Fee business	4	1		6	2	200
Insurance income	151	130	16	222	188	18
of which general account	(7)	1		(11)	2	
of which policyholders account <sup>1</sup>	158	129	22	233	186	25
<b>INCOME BEFORE REALIZED GAINS AND LOSSES</b>						
<b>ON SHARES AND REAL ESTATE</b>	<b>151</b>	<b>130</b>	<b>16</b>	<b>222</b>	<b>188</b>	<b>18</b>
Realized gains and losses on shares and real estate	(3)	(10)	70	(4)	(15)	73
<b>INCOME BEFORE TAX</b>						
<b>Corporation tax</b>	<b>(42)</b>	<b>(34)</b>	<b>24</b>	<b>(62)</b>	<b>(49)</b>	<b>27</b>
<b>NET INCOME</b>	<b>106</b>	<b>86</b>	<b>23</b>	<b>156</b>	<b>124</b>	<b>26</b>
<b>REVENUES</b>						
Life general account single premiums	176	189	(7)	259	274	(5)
Life general account recurring premiums	147	104	41	216	151	43
Life policyholders account single premiums	2,499	2,675	(7)	3,680	3,872	(5)
Life policyholders account recurring premiums	1,183	1,159	2	1,743	1,677	4
Total gross premiums	4,005	4,127	(3)	5,898	5,974	(1)
Investment income insurance activities	103	85	21	152	122	25
Fees and commissions	81	62	31	120	90	33
<b>TOTAL REVENUES</b>	<b>4,189</b>	<b>4,274</b>	<b>(2)</b>	<b>6,170</b>	<b>6,186</b>	<b>(0)</b>
Investment income for account of policyholders	2,799	3,383	(17)	4,122	4,897	(16)
<b>GROSS MARGIN, COMMISSIONS AND EXPENSES</b>						
Gross margin	577	572	1	850	828	3
Commissions and expenses	426	442	(4)	628	640	(2)
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>						
Single premiums	2,844	2,719	5	4,188	3,935	6
Recurring premiums annualized	378	363	4	557	525	6
<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>662</b>	<b>635</b>	<b>4</b>	<b>976</b>	<b>919</b>	<b>6</b>
<b>OFF BALANCE SHEET PRODUCTION</b>						
Mutual funds and other managed assets	143	332	(57)	210	481	(56)
<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>143</b>	<b>332</b>	<b>(57)</b>	<b>210</b>	<b>481</b>	<b>(56)</b>

<sup>1</sup>Includes also fee business.

## OTHER COUNTRIES

Amounts in EUR millions

	Hungary			Spain			Other countries		
	2004	2003	%	2004	2003	%	2004	2003	%
<b>INCOME BY PRODUCT SEGMENT</b>									
Traditional life	18	28	(36)	4	8	(50)	(3)	(10)	70
Life for account of policyholders	8	5	60	0	(4)		(3)	(15)	80
Fee business	9	8	13	–	–		(3)	–	–
Life insurance	35	41	(15)	4	4	0	(9)	(25)	64
Accident and health insurance	0	0		8	7	14	–	–	
General insurance	18	25	(28)	53	24	121	–	–	
Insurance income	53	66	(20)	65	35	86	(9)	(25)	64
of which general account	36	53	(32)	65	39	67	(3)	(10)	70
of which policyholders account <sup>1</sup>	17	13	31	0	(4)		(6)	(15)	60
<b>INCOME BEFORE REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE</b>									
Realized gains and losses on shares and real estate	53	66	(20)	65	35	86	(9)	(25)	64
Corporation tax	(10)	(11)	(9)	(22)	(11)	100	(11)	(23)	52
<b>NET INCOME</b>	<b>58</b>	<b>56</b>	<b>4</b>	<b>44</b>	<b>22</b>	<b>100</b>	<b>(11)</b>	<b>(21)</b>	<b>48</b>
<b>REVENUES</b>									
Life general account single premiums	1	1	0	16	11	45	2	1	100
Life general account recurring premiums	72	75	(4)	79	60	32	584	447	31
Life policyholders account single premiums	1	5	(80)	7	11	(36)	0	4	
Life policyholders account recurring premiums	75	63	19	20	22	(9)	18	131	(86)
Total life insurance gross premiums	149	144	3	122	104	17	604	583	4
Accident and health insurance premiums	1	1	0	87	82	6	–	–	
General insurance premiums	114	96	19	254	241	5	–	–	
Total gross premiums	264	241	10	463	427	8	604	583	4
Investment income insurance activities	70	67	4	52	44	18	22	19	16
Fees and commissions	14	11	27	1	1	0	1	–	
<b>TOTAL REVENUES</b>	<b>348</b>	<b>319</b>	<b>9</b>	<b>516</b>	<b>472</b>	<b>9</b>	<b>627</b>	<b>602</b>	<b>4</b>
Investment income for account of policyholders	25	6		10	17	(41)	0	31	
<b>GROSS MARGIN, COMMISSIONS AND EXPENSES</b>									
Gross margin	136	143	(5)	175	140	25	88	72	22
Commissions and expenses	83	77	8	110	105	5	97	97	0
<b>STANDARDIZED NEW PREMIUM PRODUCTION LIFE INSURANCE</b>									
Single premiums	2	7	(71)	23	23	0	1	4	(75)
Recurring premiums annualized	18	20	(10)	34	28	21	191	352	(46)
<b>TOTAL RECURRING PLUS 1/10 SINGLE</b>	<b>18</b>	<b>21</b>	<b>(14)</b>	<b>36</b>	<b>30</b>	<b>20</b>	<b>191</b>	<b>352</b>	<b>(46)</b>
<b>DEPOSITS</b>									
Variable annuities	–	–		–	–		12	–	
<b>TOTAL PRODUCTION ON BALANCE SHEET</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>		<b>12</b>	<b>0</b>	
<b>OFF BALANCE SHEET PRODUCTION</b>									
Mutual funds and other managed assets	204	160	28	0	5		0	0	
<b>TOTAL PRODUCTION OFF BALANCE SHEET</b>	<b>204</b>	<b>160</b>	<b>28</b>	<b>0</b>	<b>5</b>		<b>0</b>	<b>0</b>	

<sup>1</sup>Includes also fee business.

## INVESTMENTS, ASSETS AND LIABILITIES GEOGRAPHICALLY

Amounts in EUR millions (unless otherwise stated)

Americas USD	United Kingdom GBP	AT DECEMBER 31, 2004	Americas	The Netherlands	United Kingdom	Other countries	Total EUR	Total USD
<b>INVESTMENTS</b>								
120,141	1,725	Fixed income	88,203	13,997	2,446	2,477	107,123	145,912
4,455	56	Shares and real estate	3,271	5,534	80	92	8,977	12,228
<b>124,596</b>	<b>1,781</b>	<b>TOTAL GENERAL ACCOUNT</b>	<b>91,474</b>	<b>19,531</b>	<b>2,526</b>	<b>2,569</b>	<b>116,100</b>	<b>158,140</b>
12,745	18,089	Fixed income	9,357	11,498	25,654	139	46,648	63,539
38,274	15,464	Shares and real estate	28,099	7,964	21,932	230	58,225	79,308
<b>51,019</b>	<b>33,553</b>	<b>TOTAL POLICYHOLDERS ACCOUNT</b>	<b>37,456</b>	<b>19,462</b>	<b>47,586</b>	<b>369</b>	<b>104,873</b>	<b>142,847</b>
<b>175,615</b>	<b>35,334</b>	<b>TOTAL INSURANCE ACTIVITIES</b>	<b>128,930</b>	<b>38,993</b>	<b>50,112</b>	<b>2,938</b>	<b>220,973</b>	<b>300,987</b>
—	—	Banking activities	—	5,924	—	—	5,924	8,069
<b>76,192</b>	<b>817</b>	<b>OFF BALANCE SHEET ASSETS</b>	<b>55,937</b>	<b>11,555</b>	<b>1,159</b>	<b>803</b>	<b>69,454</b>	<b>94,603</b>
<b>251,807</b>	<b>36,151</b>	<b>TOTAL BUSINESS UNITS</b>	<b>184,867</b>	<b>56,472</b>	<b>51,271</b>	<b>3,741</b>	<b>296,351</b>	<b>403,659</b>
Other investments								
Total group								
183,480	35,985	Assets business units	134,704	47,742	51,035	3,390	236,871	322,642
Other assets								
Total assets on balance sheet								
18,132	2,222	Capital in units	13,312	3,436	3,151	592	20,491	27,911
Total capital base								
Other net liabilities								
<b>TOTAL</b>								
AT DECEMBER 31, 2003								
<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								
Total group								
168,993	33,681	Assets business units	133,803	45,855	47,788	3,059	230,505	291,128
Other assets								
Total assets on balance sheet								
17,491	2,173	Capital in units	13,849	2,865	3,083	481	20,278	25,611
Total capital base								
Other net liabilities								
<b>TOTAL</b>								

## FIXED INCOME INVESTMENTS GENERAL ACCOUNT

Amounts in EUR millions (unless otherwise stated)

AT DECEMBER 31, 2004	Americas in USD	The Netherlands in EUR	United Kingdom in GBP	Other countries in EUR	Total in EUR	In % of total
Treasuries/Agencies	8,814	6,137	233	1,529	14,468	14
High quality (AAA)	17,748	946	245	137	14,460	14
High quality (AA)	8,114	668	197	285	7,189	7
Investment grade (A)	31,674	1,180	904	429	26,145	24
Investment grade (BBB)	29,661	768	145	31	22,781	21
High yield (BB+ or less)	7,088	97	0	6	5,307	5
Mortgages	14,395	3,783	0	6	14,357	13
Others	2,647	418	1	54	2,416	2
<b>TOTAL</b>	<b>120,141</b>	<b>13,997</b>	<b>1,725</b>	<b>2,477</b>	<b>107,123</b>	<b>100</b>

AT DECEMBER 31, 2003	Americas in USD	The Netherlands in EUR	United Kingdom in GBP	Other countries in EUR	Total in EUR	In % of total
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>

## FACE VALUE AND TOTAL SUMS INSURED

Americas USD	United Kingdom GBP	YEAR 2004 LIFE INSURANCE	Americas	The Netherlands	United Kingdom	Hungary	Spain	Other countries	Total EUR
<b>NEW INSURANCE WRITTEN</b>									
100,565	12,038	Individual	80,866	1,670	17,729	612	201	2,068	103,146
13,213	2,395	Group	10,625	3,803	3,527	216	659	—	18,830
<b>113,778</b>	<b>14,433</b>	<b>TOTAL 2004</b>	<b>91,491</b>	<b>5,473</b>	<b>21,256</b>	<b>828</b>	<b>860</b>	<b>2,068</b>	<b>121,976</b>
<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>NET INCREASE</b>									
124,358	7,259	Individual	26,430	(115)	10,267	611	(479)	6,785	43,499
(4,406)	(607)	Group	(7,001)	1,874	(866)	168	721	—	(5,104)
<b>119,952</b>	<b>6,652</b>	<b>TOTAL 2004</b>	<b>19,429</b>	<b>1,759</b>	<b>9,401</b>	<b>779</b>	<b>242</b>	<b>6,785</b>	<b>38,395</b>
<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>TOTAL SUMS INSURED AT YEAR-END</b>									
1,250,446	55,614	Individual	918,028	43,029	78,874	1,880	1,749	13,118	1,056,678
60,959	9,284	Group	44,754	71,647	13,167	640	1,724	—	131,932
<b>1,311,405</b>	<b>64,898</b>	<b>TOTAL 2004</b>	<b>962,782</b>	<b>114,676</b>	<b>92,041</b>	<b>2,520</b>	<b>3,473</b>	<b>13,118</b>	<b>1,188,610</b>
<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>

## DEFERRED POLICY ACQUISITION COSTS GEOGRAPHICALLY

Amounts in EUR millions

AT DECEMBER 31, 2004	Americas	The Netherlands	United Kingdom	Other countries	Total
Traditional life	3,835	175	160	228	4,398
Fixed annuities	1,299	–	–	–	1,299
GICs and funding agreements	25	–	–	–	25
Life for account of policyholders	797	685	3,729	28	5,239
Variable annuities	1,188	–	–	–	1,188
Fee business	100	–	6	–	106
Accident and health	846	32	–	–	878
<b>TOTAL</b>	<b>8,090</b>	<b>892</b>	<b>3,895</b>	<b>256</b>	<b>13,133</b>
Of which VOBA	2,444	–	1,173	–	3,617

AT DECEMBER 31, 2003	Americas	The Netherlands	United Kingdom	Other countries	Total
Traditional life	3,979	199	151	149	4,478
Fixed annuities	1,605	–	–	–	1,605
GICs and funding agreements	28	–	–	–	28
Life for account of policyholders	823	798	3,561	28	5,210
Variable annuities	1,300	–	–	–	1,300
Fee business	90	–	6	–	96
Accident and health	910	37	–	–	947
<b>TOTAL</b>	<b>8,735</b>	<b>1,034</b>	<b>3,718</b>	<b>177</b>	<b>13,664</b>
Of which VOBA	2,905	–	1,205	–	4,110

## GROUP COMPANIES

AEGON's most important group companies (100% owned unless indicated otherwise) are as follows.

### THE AMERICAS

AEGON USA, Inc., Cedar Rapids, Iowa (USA)  
Commonwealth General Corporation, Wilmington, Delaware (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  
Meeùs 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

AEGON Hungary Composite Insurance Company 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	2004	2003 <sup>1</sup>
<b>INVESTMENTS</b>			
<b>GROUP COMPANIES</b>			
Shares in group companies	1	12,915	12,067
Loans to group companies	2	4,919	4,732
		<b>17,834</b>	<b>16,799</b>
<b>OTHER LOANS</b>	3	95	201
		<b>17,929</b>	<b>17,000</b>
<b>RECEIVABLES</b>			
Receivables from group companies		3,403	2,863
		<b>3,403</b>	<b>2,863</b>
<b>OTHER ASSETS</b>			
Liquid assets		1,030	34
Other assets		12	29
		<b>1,042</b>	<b>63</b>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		127	277
		<b>127</b>	<b>277</b>
<b>TOTAL ASSETS</b>		<b>22,501</b>	<b>20,203</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	4	243	238
Tax-free paid-in surplus	5	7,112	7,116
Revaluation account	5	1,448	1,393
Other surplus fund	5	3,947	4,167
Net income	5	1,663	1,033
		<b>14,413</b>	<b>13,947</b>
<b>PERPETUAL CAPITAL SECURITIES</b>		<b>1,317</b>	–
<b>PERPETUAL CUMULATIVE SUBORDINATED BONDS</b>		<b>1,517</b>	<b>1,517</b>
<b>SUBORDINATED LOANS</b>		<b>254</b>	<b>452</b>
<b>EQUITY AND SUBORDINATED LOANS</b>		<b>17,501</b>	<b>15,916</b>
<b>PROVISIONS</b>		<b>29</b>	<b>80</b>
<b>LONG-TERM LIABILITIES</b>	6	<b>2,773</b>	<b>2,708</b>
<b>CURRENT LIABILITIES</b>			
Amounts owed to credit institutions		1,938	1,220
Other payables		143	12
		<b>2,081</b>	<b>1,232</b>
<b>ACCRAULS AND DEFERRED INCOME</b>		<b>117</b>	<b>267</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>22,501</b>	<b>20,203</b>

<sup>1</sup> The 2003 numbers have been adjusted to reflect changes in accounting principles implemented as of January 1, 2004.

For notes: see page 140 and following.

## INCOME STATEMENTS OF AEGON N.V.

Amounts in EUR millions

	2004	2003	2002
Net income group companies	1,871	1,051	(264)
Other income	(208)	(18)	36
<b>NET INCOME</b>	<b>1,663</b>	<b>1,033</b>	<b>(228)</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.

1 SHARES IN GROUP COMPANIES	2004	2003
Balance at January 1	12,067	12,279
Capital contribution and acquisitions	–	–
Divestitures	(203)	(119)
Net income for the financial year	1,871	1,051
Revaluations	(820)	(1,144)
<b>BALANCE AT DECEMBER 31</b>	<b>12,915</b>	<b>12,067</b>

The group companies are stated at their net asset value.

2 LOANS TO GROUP COMPANIES	2004	2003
Balance at January 1	4,732	5,361
Additional loans	1,644	1,439
Repayments or payments received	(2,016)	(1,039)
Other changes	559	(1,029)
<b>BALANCE AT DECEMBER 31</b>	<b>4,919</b>	<b>4,732</b>

3 OTHER LOANS	2004	2003
Balance at January 1	201	352
Repayments or payments received	(106)	(151)
<b>BALANCE AT DECEMBER 31</b>	<b>95</b>	<b>201</b>

4 SHARE CAPITAL	Common shares	Preferred shares A	Preferred shares B	Total
Authorized	360	125	125	610
Unissued	174	72	121	367
<b>ISSUED AND OUTSTANDING</b>	<b>186</b>	<b>53</b>	<b>4</b>	<b>243</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 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. In 2003, Vereniging AEGON exercised its option rights to purchase in aggregate 11,100,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances and treasury stock sales during the year. In 2004, Vereniging AEGON exercised its option rights to purchase in aggregate 5,800,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances and treasury stock sales during this year.

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 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 share option and stock appreciation rights 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.

	2004	2003
<b>NUMBER OF COMMON SHARES</b>		
Balance at January 1	1,514,377,800	1,444,579,122
Issuance of shares	-	-
Stock dividend	38,307,253	69,798,678
Exercise of options	-	-
<b>BALANCE AT DECEMBER 31</b>	<b>1,552,685,053</b>	<b>1,514,377,800</b>

The weighted average number of EUR 0.12 common shares over 2004 was 1,507,323,772 (2003: 1,476,499,310).

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. 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 stock appreciation rights in 2004, 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 2004 vest after three years and can only be exercised during the four years after the vesting date. 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 1998 up to and including 2001 can be exercised three years after being granted and then during a period of two years. Plans for stock appreciation rights 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 under Dutch law, stock appreciation rights and options cannot be exercised in black-out periods.

The following tables set forth the changes in the years 2002, 2003, and 2004 as well as the breakdown of stock appreciation rights (SARs) and options outstanding.

	Number of options/SARs	Weighted average exercise price <sup>1</sup> in EUR
Balance at December 31, 2001	49,269,178	33.18
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	33.45
Issued	11,447,300	6.30
Exercised	(26,840)	10.14
Lapsed	(10,690,852)	28.55
Balance at December 31, 2003	55,667,110	28.74
Issued	11,574,850	10.56
Exercised (only Providian options)	(86,200)	8.61
Lapsed	(12,406,012)	41.41
<b>BALANCE AT DECEMBER 31, 2004</b>	<b>54,749,748</b>	<b>22.04</b>

## NOTES TO THE BALANCE SHEETS OF AEGON N.V.

Amounts in EUR millions

Options/SARs	Original number <sup>1</sup>	January 1 2004 <sup>1</sup>	Outstanding December 31 2004 <sup>1</sup>	Exercise price in EUR <sup>1</sup>	Exercise period
Providian	7,204,384	1,099,710	1,013,198	17.30 <sup>2</sup>	until August 6, 2008
1998	11,518,000	741,000	–	29.02	until May 23, 2004
1999	8,925,300	8,924,900	–	46.95	until March 6, 2004
2000 <sup>3</sup>	10,609,700	10,609,700	10,609,700	34.50	until March 14, 2005
2001 <sup>3</sup>	11,288,800	11,288,800	11,288,800	34.84	until March 13, 2006
2002 <sup>4</sup>	11,555,700	11,555,700	8,815,900 <sup>5</sup>	26.70	until March 12, 2009
2003 <sup>4</sup>	11,447,300	11,447,300	11,447,300	6.30	until March 11, 2010
2004 <sup>4</sup>	11,574,850	–	11,574,850	10.56	until March 17, 2011
	<b>84,124,034</b>	<b>55,667,110</b>	<b>54,749,748</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> Including stock appreciation rights which do not entitle the holder to buy AEGON shares but provide the same financial benefits.

<sup>4</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 364,400 stock options (2003: 438,200 and 2002: 263,100).

<sup>5</sup> Number of SARs that vested in 2004 for employees that were still employed by AEGON at the date of vesting.

Stock options exercisable as of December 31, 2004, amount to 31,727,598 (2003: 18,070,310 and 2002: 20,395,702) and their weighted average exercise price amounts to EUR 31.90 (2003: EUR 38.66 and 2002: EUR 35.24).

The market value of the stock appreciation rights and stock options granted during the year amounts to EUR 32 million at the grant date (2003: EUR 20 million and 2002: EUR 76 million). This value was estimated using the binomial option pricing model, taking into account the respective vesting and exercise periods of the stock appreciation rights and options. The liabilities related to stock appreciation rights are valued at market value at the balance sheet date. The change in value of the liabilities is recognized in the income statement under expenses.

The breakdown of the stock appreciation rights and stock options granted in 2004 is as follows: Executive Board 200,000, other senior executives 4,498,250 and other employees 6,876,600 (2003: nil, 4,350,500 and 7,096,800 and 2002: 150,000, 4,041,000 and 7,364,700 respectively).

For detailed information about the Executive Board's stock appreciation rights and options, refer to page 120.

<b>5 SHAREHOLDERS' EQUITY</b>	Share capital	Paid-in surplus	Revaluation account	Other surplus fund	Net income	Total 2004	Total 2003
<b>SHAREHOLDERS' EQUITY AS AT JANUARY 1</b>	<b>238</b>	<b>7,116</b>	<b>1,393</b>	<b>4,167</b>	<b>1,033</b>	<b>13,947</b>	<b>14,231</b>
Net income 2003				1,033	(1,033)	–	1,033
Net income 2004				1,663	1,663		–
<b>TOTAL NET INCOME</b>						<b>1,663</b>	<b>1,033</b>
Cumulative effect on accounting change SOP 03-01							(185)
Currency exchange rate differences		(17)	(776)		(793)	(1,746)	
Sale TFC businesses			154 <sup>1</sup>		154	307	
Unrealized gains and losses on shares and real estate		720			720	679	
Reclass adjustment for gains and losses included in net income		(619)			(619)	270	
Goodwill			(265)		(265)	(358)	
Equity swap			(30)		(30)	(5)	
Other changes		(29)	(11)		(40)	(154)	
<b>OTHER COMPREHENSIVE INCOME</b>						<b>873</b>	<b>(1,192)</b>
<b>COMPREHENSIVE INCOME</b>						<b>790</b>	<b>(159)</b>
Dividend common shares				(256)		(256)	(147)
Dividend preferred shares				(95)		(95)	–
Stock dividend	4	(4)			–	–	
Issuance of shares	1				1	3	
Repurchased and sold own shares				26		26	19
<b>CHANGES IN EQUITY IN RELATION WITH SHAREHOLDERS</b>						<b>(324)</b>	<b>(125)</b>
<b>SHAREHOLDERS' EQUITY AS AT DECEMBER 31</b>	<b>243</b>	<b>7,112</b>	<b>1,448</b>	<b>3,947</b>	<b>1,663</b>	<b>14,413</b>	<b>13,947</b>

<sup>1</sup> This item represents the total gain on the sale of most of TFC's commercial lending business, the maritime container business and the European trailer business.

As of January 1, 2004, changes in accounting principles have been adopted as described on page 90. The effect on shareholders' equity of these changes can be summarized as follows:

		January 1 2004	January 1 2003
Shareholders' equity - as reported		14,132	14,231
Effect of SOP 03-01		(185)	(185)
<b>SHAREHOLDERS' EQUITY - ADJUSTED</b>		<b>13,947</b>	<b>14,046</b>

As a result of the discontinuation of the indirect income method, the realized portion of the revaluation account at December 31, 2003, amounting to EUR 1,281 million was transferred to the other surplus fund as of January 1, 2004. This change in accounting principles did not have an impact on total shareholders' equity.

The minimum amount of the revaluation account for the consolidated investments as required by law amounts to EUR 1,448 million (2003: EUR 1,393 million).

The legal reserve for currency differences on foreign subsidiaries refers to accumulated translation differences amounting to EUR (1,477) million (2003: EUR (1,710) million) and is included in the other surplus fund.

	Shares		Real estate		Total	
	2004	2003	2004	2003	2004	2003
<b>CONSOLIDATED REVALUATION ACCOUNT SHARES AND REAL ESTATE</b>						
Revaluation account at January 1 – as reported	2,093	2,040	581	558	2,674	2,598
Transferred to other surplus fund at January 1, 2004	(1,217)	(1,860)	(64)	(196)	(1,281)	(2,056)
Revaluations account at January 1 – adjusted	876	180	517	362	1,393	542
Unrealized gains and losses on shares and real estate	598	575	122	104	720	679
Unrealized gains and losses in previous years on shares and real estate sold in the reporting year	(499)	249	(120)	21	(619)	270
Changes in the provision for deferred taxation	(63)	(106)	10	(47)	(53)	(153)
Other changes	(3)	(22)	10	77	7	55
<b>BALANCE AT DECEMBER 31</b>	<b>909</b>	<b>876</b>	<b>539</b>	<b>517</b>	<b>1,448</b>	<b>1,393</b>

#### 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 25,232,494 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 option rights granted to executives and employees.

Movements in the number of repurchased own shares were as follows:

Balance at January 1	27,429,342
Purchase: 2 transactions on May 18 and September 24, average price EUR 9.88	7,466,660
Sale: 3 transactions April 1, April 22 and July 19, average price EUR 10.29	(9,663,508)
<b>BALANCE AT DECEMBER 31</b>	<b>25,232,494</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. Results on the sale of subsidiaries are reflected directly in shareholders' equity as far as the results do not exceed the goodwill, if any, charged to equity for that particular subsidiary.

<b>6 LONG-TERM LIABILITIES</b>	<b>2004</b>	<b>2003</b>
Remaining terms up to 3 years	258	854
Remaining terms 4-5 years	1,034	893
Remaining terms over 5 years	1,481	961
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>2,773</b>	<b>2,708</b>
Redemptions due in 2005/2004	241	565

Redemptions are included in long-term liabilities.

The repayment periods of borrowings vary from in excess of one year up to a maximum of 22 years. The interest rates vary from 1.49% to 9.00% per annum.

The market value of the long-term liabilities amounts to EUR 2,891 million (2003: EUR 2,896 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 2,220 million). At December 31, 2004, there were no amounts due and payable.

Due and punctual payment of payables by the consolidated group companies AEGON Funding Corp., AEGON Funding Corp. II, Commonwealth General Corporation, Transamerica Corporation and Transamerica Finance Corp. with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs (EUR 1,519 million).

Due and punctual payment of any amounts owed to third parties by the consolidated group company AEGON Derivatives N.V. in connection with derivative transactions. AEGON Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA Master Agreements including Collateral Support Annex agreements have been agreed; net (credit) exposure on derivative transactions with these counterparties was therefore minimal as of December 31, 2004.

With respect to the former subsidiary FGH Bank N.V. (sold to Hypo-Vereinsbank):

- 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
- 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 2, 2005

#### **SUPERVISORY BOARD**

M. Tabaksblat  
D.G. Eustace  
I.W. Bailey, II  
R. Dahan  
O.J. Olcay  
T. Rembe  
W.F.C. Stevens  
K.J. Storm  
P. Voser  
L.M. van Wijk

#### **EXECUTIVE BOARD**

D.J. Shepard  
J.B.M. Streppel  
J.G. van der Werf  
A.R. Wynaedts

## 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 at the expense of reserves.

It is proposed to the annual General Meeting of Shareholders on April 21, 2005, to pay a dividend for the year 2004 of EUR 0.42 per common share of EUR 0.12 par value, which after taking into account the EUR 0.21 interim dividend, leads to a final dividend of EUR 0.21 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 25, 2005, up to and including May 2, 2005.

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 9, 2005, after 5.30 p.m., based upon the average share price (quotation Euronext Amsterdam) in the five trading days from May 3, 2005, up to and including May 9, 2005.

In accordance with article 32, paragraph 3 of the Articles of Incorporation, a dividend equal to 3.75% 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:

	2004
Dividend on preferred shares	79
Interim dividend on common shares (cash portion)	118
Final dividend on common shares (cash portion)	321
Earnings to be retained	1,145
<b>NET INCOME</b>	<b>1,663</b>

### SUBSEQUENT EVENTS

In February 2005, AEGON settled legal proceedings brought by Banque Internationale à Luxembourg S.A. (BIL) and Dexia Bank Belgium S.A. (Dexia) in connection with AEGON's sale in 2000 of Labouchere, at that time a subsidiary company of AEGON. Dexia had alleged that AEGON had made certain misrepresentations and breached certain warranties contained in the purchase agreement. The alleged misrepresentations and breaches of warranties related to securities leasing products sold by Labouchere. Without admitting the claims brought by BIL and Dexia, AEGON agreed to pay EUR 218 million in cash to BIL and Dexia in full and final settlement of all and any claims in this regard. The settlement amount was paid on February 14, 2005. The payment was accounted for as an exceptional item in the 2004 results.

On February 16, 2005, AEGON announced it had reached agreement on the sale of TFC's European trailer leasing business. Together with the sale of the maritime container leasing business, AEGON has completed the divestiture of its non-core TFC operating businesses. The financial effect of these divestitures, which under Dutch Accounting Principles has been reported in shareholders' equity in 2004, was not material.

## 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 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 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 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. In 2003, Vereniging AEGON exercised its option rights to purchase in aggregate 11,100,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances and treasury stock sales during the year. In 2004, Vereniging AEGON exercised its option rights to purchase in aggregate 5,800,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances and treasury stock sales during this year.

Development of shareholding in AEGON N.V.	Common	Preferred A	Preferred B
<b>NUMBER OF SHARES</b>			
As of January 1, 2004	171,974,055	211,680,000	11,100,000
Stock dividend 2003 received	3,372,040	–	–
Sale of stock, offering price of EUR 10.6980 per share	(3,372,040)	–	–
Interim stock dividend 2004 received	4,094,620	–	–
Exercise option right Pref B shares	–	–	5,800,000
Sale of stock, offering price of EUR 9.1990 per share	(4,094,620)	–	–
<b>AS OF DECEMBER 31, 2004</b>	<b>171,974,055</b>	<b>211,680,000</b>	<b>16,900,000</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, 2004, amounts to approximately 22.8%. In the event of a 'special cause', Vereniging AEGON's voting rights will increase to currently 32.35% for up to six months per 'special cause'.

At December 31, 2004, the General Meeting of Members of Vereniging AEGON consisted of 18 members. The majority of the voting rights is with the 16 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 AEGON. The other two members are also members 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.

#### **OTHER MAJOR SHAREHOLDERS**

Based on filings made with the SEC the following major shareholdings in AEGON N.V. are known as at December 31, 2004:

- Capital International Group, Inc., parent company of several investment management companies, holds 96,440,510 common shares for account of third parties (6.2%);
- Brandes Investment Partners, L.P., investment advisors, holds 90,203,735 common shares for account of third parties (5.8%).

## AUDITOR'S REPORT

### INTRODUCTION

We have audited the financial statements of AEGON N.V., The Hague, for the year 2004. 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, 2004, 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 2, 2005  
FOR ERNST & YOUNG ACCOUNTANTS

Alexander F.J. van Overmeire

Chris J. Westerman

## ADDITIONAL INFORMATION

### INFORMATION BASED ON US 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	Shareholders' equity December 31, 2003 <sup>1</sup>		2004	2003 <sup>1</sup>	Net income 2002 <sup>1</sup>
	2004	2003 <sup>1</sup>			
Amounts in accordance with Dutch accounting principles	14,413	13,947	1,663	1,033	(228)
Adjustments for:					
Real estate	(843)	(817)	(39)	(33)	(48)
Bonds and private placements – valuation	3,959	3,824	–	–	–
– realized gains and (losses)	1,472	1,132	245	893	8
Deferred policy acquisition costs	(2,111)	(2,253)	(210)	(308)	(626)
Goodwill	2,939	2,959	–	(219)	(670)
Technical provisions	72	715	(58)	1	534
Realized gains and (losses) on shares and real estate	–	–	13	145	(150)
Derivatives	(142)	(239)	5	90	32
Deferred taxation	(632)	(670)	(47)	(33)	(30)
Deferred taxation on US GAAP adjustments	(680)	(771)	130	(266)	(184)
Balance of other items	(131)	9	12	228	329
<b>AMOUNTS DETERMINED IN ACCORDANCE WITH US GAAP</b>	<b>18,316</b>	<b>17,836</b>			
Income before cumulative effect of accounting changes			1,714	1,531	(1,033)
Cumulative effect of adopting SOP 03-01			(207)	–	–
Cumulative effect of adopting DIG B36			(77)	–	–
Cumulative effect of adopting FAS 142 (goodwill)			–	–	(1,295)
<b>NET INCOME IN ACCORDANCE WITH US GAAP</b>			<b>1,430</b>	<b>1,531</b>	<b>(2,328)</b>
Other comprehensive income, net of tax:					
Foreign currency translation adjustments			(971)	(2,384)	(2,749)
Unrealized gains and (losses) on available for sale securities during the period			911	1,223	(673)
Reclassification adjustment for (gains) and losses included in net income			(526)	7	1,193
Net unrealized gains on cash flow hedges			66	26	–
Minimum pension liability adjustment			(47)	–	–
Other comprehensive income / (loss)			(567)	(1,128)	(2,229)
<b>COMPREHENSIVE INCOME IN ACCORDANCE WITH US GAAP</b>			<b>863</b>	<b>403</b>	<b>(4,557)</b>

<sup>1</sup>The shareholders' equity and net income determined in accordance with DAP have been adjusted to reflect changes in accounting principles implemented as of January 1, 2004. The changes in accounting principles had no effect on last years' reported shareholders' equity and net income in accordance with US GAAP. As a result, the DAP - US GAAP adjustments of the affected reconciling items have been adjusted to reflect the changes in accounting principles in DAP. See page 90 for a reconciliation of 2003 reported DAP numbers to adjusted DAP numbers.

In 2004 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 1,430 million was reported for 2004 based on US GAAP, compared to a net profit of EUR 1,531 million for 2003. Realized gains and losses on bonds and private placements less the reversal of the amortization of deferred gains and losses totaled EUR 245 million for the year ended December 31, 2004 (2003: EUR 893 million, 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.

## ADDITIONAL INFORMATION

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 2004 and resulted in no goodwill impairment charge (2003: EUR 219 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 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. Realized gains and losses are recognized in the income statement.

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 expense 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 and the differences in results on disposals arising from the reversal of cumulative depreciation charges on the disposals under US GAAP.

### 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 current 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 debt securities are recorded in the earnings of the period in which the sales occurred. Gains and losses, both realized and unrealized, on debt securities 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, and also includes gains and losses on debt securities in the trading portfolio.

#### **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.

Under US GAAP for fixed premium products the accounting is the same as under Dutch accounting principles in all countries. For flexible premium products sold in the United States and Canada, US GAAP is the same as 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. 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 Netherlands 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 (1,371) million (2003: EUR (1,421) 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 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 and Other Countries. 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. 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 judgments 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 amounting to EUR 1,234 million and for AEGON USA insurance operations.

## ADDITIONAL INFORMATION

### 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 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.

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 the highest of the account balance or the guaranteed amount. Many variable annuity products also contain a guaranteed minimum income benefit (GMIB) feature that provides for minimum payments if the contract holder elects to convert to an immediate payout annuity. The guaranteed amount 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 value of the guarantee with interest or with increases in the account value, respectively.

The Statement of Position 03-01 (SOP 03-01), issued by AcSEC, changed the provisioning for mortality on universal life contracts and for guaranteed living and death benefits on variable annuity and variable life contracts in the United States. AEGON USA has adopted this standard for both DAP and US GAAP as of January 1, 2004. The implementation mainly changed the timing of the recognition of mortality profits in earnings. For the purposes of comparison and as required under Dutch Law, the reported 2003 DAP net income and shareholders' equity have been adjusted in the reconciliation to reflect the accounting adjustments to the 2003 reported results.

The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. AEGON regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used in estimating the liability as of December 31, 2004, are consistent with those used for amortizing DPAC, including the mean reversion assumption. The assumptions of investment performance and volatility are consistent with historical experience. The benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios.

The GMIB liability is determined each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. AEGON regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used for calculating the GMIB liability as of December 31, 2004, are consistent with those used for calculating the GMDB liability. In addition, the calculation of the GMIB liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

Universal life-type contracts that assess charges for a mortality benefit feature in a manner that is expected to result in profits in earlier years and losses in subsequent years are now required to establish a reserve in addition to the account balance to recognize the portion of such assessments that compensates the insurance enterprise for benefits to be provided in future periods. The consequence of SOP 03-01 is that a product that fails this test for any future year is required to establish a reserve that would cause mortality margins to be more level over the policy life. The reserve is not limited to the amount of the losses for those years with a mortality loss.

In Canada the variable annuity products sold are known as segregated funds. 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 the Netherlands Fundplan policies have a guaranteed return of 3% or 4% at maturity or upon the death of the insured if the premium paid for a consecutive period of ten years is invested in Mix Fund and/or Fixed Income Fund. For this guaranteed return, a provision is established based on stochastic modeling. 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 modeling 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 DAP.

The provision for guaranteed living and death benefits on variable annuity and variable life contracts in the United States is the same as described for DAP. For US GAAP, the impact from the adoption of SOP 03-01 was recorded as a cumulative effect of a change in accounting principles as of January 1, 2004.

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 at December 31, 2004, EUR (312) million (year-end 2003: EUR (300) 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 Derivatives line in the reconciliation.

#### **REALIZED GAINS AND LOSSES ON SHARES AND REAL ESTATE**

As of January 1, 2004, AEGON no longer applies the indirect return method to its capital gains and losses on investments in shares and real estate. Under the new accounting principle the unrealized capital gains and losses are recognized in a revaluation reserve (a component of shareholders' equity). The realized gains and losses are recognized in the income statement at the time of realization. Direct income (interest and dividend) is recognized in the income statement. The comparative figures have, in accordance with DAP, been adjusted to reflect the new accounting policy.

US GAAP accounting for shares is consistent with DAP, except for shares designated in a trading portfolio where changes in fair value from period to period are reported in net income. Real estate is carried at historical cost less accumulated depreciation and gains and losses are only recognized upon sale.

#### **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.

#### **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-shareholders' 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

					USD Total						EUR Total		
2004		I	II	III	IV		2004		I	II	III	IV	
<b>NET INCOME</b>													
554	547	597	556	2,254	(including annuities)		443	454	489	427	1,813		
93	96	84	93	366	Accident and health insurance		74	80	69	71	294		
26	33	42	32	133	General insurance		21	27	34	25	107		
6	5	6	10	27	Banking activities		5	4	5	8	22		
(157)	(112)	(132)	(162)	(563)	Interest charges and other		(126)	(93)	(108)	(126)	(453)		
Income before realized gains and losses on shares and real estate													
522	569	597	529	2,217	Realized gains and losses on shares and real estate		417	472	489	405	1,783		
111	127	165	343	746			89	105	135	271	600		
Income before tax and exceptional items													
633	696	762	872	2,963	Exceptional items		506	577	624	676	2,383		
0	0	0	(271)	(271)			0	0	0	(218)	(218)		
633	696	762	601	2,692	Income before tax		506	577	624	458	2,165		
(190)	(170)	(214)	(61)	(635)	Corporation tax		(152)	(141)	(176)	(42)	(511)		
0	0	0	11	11	Non-consolidated ventures		0	0	0	9	9		
<b>443</b>	<b>526</b>	<b>548</b>	<b>551</b>	<b>2,068</b>	<b>NET INCOME</b>		<b>354</b>	<b>436</b>	<b>448</b>	<b>425</b>	<b>1,663</b>		
<b>REVENUES</b>													
7,736	6,734	6,874	8,126	29,470	Life insurance		6,186	5,607	5,628	6,276	23,697		
911	826	813	809	3,359	Accident and health		728	688	665	620	2,701		
316	266	245	266	1,093	General insurance		253	221	201	204	879		
91	82	84	96	353	Banking activities		73	68	69	74	284		
118	124	118	54	414	Other activities		94	103	97	39	333		
111	127	179	353	770	Realized gains and losses on shares and real estate		89	105	146	279	619		
<b>9,283</b>	<b>8,159</b>	<b>8,313</b>	<b>9,704</b>	<b>35,459</b>	<b>TOTAL REVENUES</b>		<b>7,423</b>	<b>6,792</b>	<b>6,806</b>	<b>7,492</b>	<b>28,513</b>		
Investment income for account of policyholders													
2,281	299	1,419	6,552	10,551			1,824	279	1,161	5,220	8,484		
Annuities, GICs and savings accounts													
5,519	5,849	5,875	4,484	21,727	– Gross deposits		4,413	4,852	4,808	3,398	17,471		
125	446	79	(1,578)	(928)	– Net deposits		100	365	66	(1,277)	(746)		
1,757	1,778	1,762	1,861	7,158	Commissions and expenses		1,405	1,476	1,442	1,433	5,756		
18,391	18,346	18,645	19,632		Shareholders' equity		15,045	15,093	15,025	14,413			
2,930	2,918	3,606	4,721		Subordinated loans		2,397	2,401	2,906	3,466			
<b>21,321</b>	<b>21,264</b>	<b>22,251</b>	<b>24,353</b>		<b>EQUITY AND SUBORDINATED LOANS</b>	<b>17,442</b>	<b>17,494</b>	<b>17,931</b>	<b>17,879</b>				
<b>FIGURES PER COMMON SHARE</b>													
0.28	0.33	0.36	0.34	1.31	Net income		0.22	0.28	0.29	0.26	1.05		
10.63	10.47	10.50	10.98		Shareholders' equity		8.70	8.61	8.46	8.06			
<b>USD EXCHANGE RATE</b>													
1.2224	1.2155	1.2409	1.3621		At end of period								
1.2506	1.2270	1.2252	1.2436		Weighted average rate								

					USD Total						EUR Total
2003	I	II	III	IV		2003	I	II	III	IV	
<b>NET INCOME</b>											
Life insurance											
384	367	471	516	1,738	(including annuities)	358	322	420	437	1,537	
59	57	87	108	311	Accident and health insurance	55	50	78	92	275	
16	32	18	2	68	General insurance	15	28	16	1	60	
0	2	10	11	23	Banking activities	0	2	9	9	20	
(128)	(113)	(136)	(109)	(486)	Interest charges and other	(119)	(99)	(121)	(90)	(429)	
Income before realized gains and losses on shares and real estate											
331	345	450	528	1,654	Realized gains and losses on shares and real estate	309	303	402	449	1,463	
(133)	(180)	111	(103)	(305)		(124)	(159)	101	(88)	(270)	
198	165	561	425	1,349	Income before tax	185	144	503	361	1,193	
(94)	(93)	(124)	(117)	(428)	Corporation tax	(88)	(81)	(111)	(98)	(378)	
78	109	49	11	247	Transamerica Finance Corporation	73	96	43	6	218	
<b>182</b>	<b>181</b>	<b>486</b>	<b>319</b>	<b>1,168</b>	<b>NET INCOME</b>	<b>170</b>	<b>159</b>	<b>435</b>	<b>269</b>	<b>1,033</b>	
<b>REVENUES</b>											
7,026	6,381	6,291	7,029	26,727	Life insurance	6,548	5,585	5,597	5,899	23,629	
881	789	796	840	3,306	Accident and health	821	690	708	704	2,923	
265	255	213	237	970	General insurance	247	224	189	198	858	
101	103	99	98	401	Banking activities	94	91	88	81	354	
2	1	7	28	38	Other activities	2	1	6	25	34	
(133)	(180)	111	(103)	(305)	Realized gains and losses on shares and real estate	(124)	(159)	101	(88)	(270)	
<b>8,142</b>	<b>7,349</b>	<b>7,517</b>	<b>8,129</b>	<b>31,137</b>	<b>TOTAL REVENUES</b>	<b>7,588</b>	<b>6,432</b>	<b>6,689</b>	<b>6,819</b>	<b>27,528</b>	
Investment income for account of policyholders											
(1,662)	7,724	2,429	6,053	14,544		(1,549)	7,035	2,157	5,215	12,858	
Annuities, GICs and savings accounts											
7,787	6,790	5,084	4,620	24,281	– Gross deposits	7,257	5,935	4,505	3,770	21,467	
2,706	1,470	16	(1,609)	2,583	– Net deposits	2,522	1,257	(6)	(1,489)	2,284	
1,365	1,491	1,409	1,763	6,028	Commissions and expenses	1,272	1,313	1,254	1,491	5,330	
14,276	15,335	15,631	17,615		Shareholders' equity	13,103	13,420	13,415	13,947		
2,826	2,909	2,839	3,002		Subordinated loans	2,594	2,546	2,436	2,377		
<b>17,102</b>	<b>18,244</b>	<b>18,470</b>	<b>20,617</b>		<b>EQUITY AND SUBORDINATED LOANS</b>	<b>15,697</b>	<b>15,966</b>	<b>15,851</b>	<b>16,324</b>		
<b>FIGURES PER COMMON SHARE</b>											
0.11	0.10	0.31	0.20	0.72	Net income	0.10	0.09	0.28	0.17	0.64	
8.15	8.78	8.87	10.05		Shareholders' equity	7.48	7.68	7.61	7.96		
<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						

## FINANCIAL CALENDAR

### KEY EVENTS 2004

January 14	Sale of most of TFC's commercial lending business successfully closed
January 28	CAM and AEGON have reached final agreement on strategic partnership
March 12	AEGON reports on full year 2003 results
March 12	Proposed changes in composition Supervisory Board AEGON N.V.
March 18	Proposed changes in composition Supervisory Board AEGON N.V.
April 22	Resolutions of the annual General Meeting of Shareholders
May 10	Stock fraction final dividend 2003 AEGON N.V. determined at 1/51
May 12	AEGON reports on first quarter 2004 results
June 7	AEGON discloses its embedded value 2003
June 9	CAM and AEGON set up holding for their strategic partnership
July 12	AEGON issues EUR 450 million and USD 250 million in Junior Perpetual Capital securities
July 13	AEGON increases euro tranche of Junior Perpetual Capital Securities to EUR 500 million
August 12	AEGON reports on first half year 2004 results
September 20	Stock fraction interim dividend 2004 AEGON N.V. determined at 1/42
October 8	AEGON N.V. increases Junior Perpetual Capital Securities to EUR 950 million and USD 500 million
October 20	AEGON's subsidiary in China enters into national cooperation agreement with Agricultural Bank of China
November 4	AEGON sells Transamerica Finance Corporation's maritime container leasing business
November 11	AEGON reports on first nine months 2004 results
November 26	AEGON N.V. offers EUR 500 million 4.125% Eurobonds
December 6	AEGON-CNOOC receives license for life insurance activities in Beijing
December 10	Changes in the Supervisory Board of AEGON N.V.
December 13	La Mondiale and AEGON strengthen their partnership by an increase of capital in La Mondiale Participations
December 30	AEGON sells general insurance activities in Spain to Reale Mutua

### IMPORTANT DATES 2005

April 14	Publication 2004 IFRS figures
April 21	Annual General Meeting of Shareholders
April 22	Final dividend record date
April 25	Ex-dividend date (Due Bill trading of New York Registry Shares from April 20 up to and including April 24)
April 25 - May 2	Election period for cash/stock dividend
May 3 - May 9	Determination period for value stock dividend
May 11	Release results first three months 2005
May 11	Release embedded value report
May 17	Final dividend 2004 payment date
August 11	Release results first six months 2005, interim dividend announcement
August 12	Interim dividend record date
August 15	Ex-dividend date
September 23	Interim dividend payment date
November 10	Release results first nine months 2005

### 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 21, 2005, at 10.00 C.E.T.

## CORPORATE AND SHAREHOLDER INFORMATION

### HEADQUARTERS

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AEGONplein 50  
P.O. Box 202  
2501 CE The Hague  
The Netherlands  
Telephone: +31 70 344 32 10  
Internet: <http://www.aegon.com>  
E-mail: [gca-ir@aegon.com](mailto:gca-ir@aegon.com)

### STOCK EXCHANGE LISTING

The common shares of AEGON N.V. are quoted on stock exchanges in:

- Amsterdam
- Frankfurt
- London
- New York, NYSE
- Tokyo
- Zurich

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  
2501 CE The Hague  
The Netherlands

#### GROUP CORPORATE AFFAIRS AND INVESTOR RELATIONS

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## FORWARD LOOKING STATEMENTS

The statements contained in this Annual Report that are not historical facts are forward-looking statements as defined in the 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 equity and debt securities we hold;
- the frequency and severity of insured loss events;
- changes affecting mortality, morbidity and other factors that may affect the profitability of our insurance products;
- changes affecting interest rate levels and continuing low interest rate levels and rapidly changing interest rate levels;
- changes affecting currency exchange rates, including the EUR/USD and EUR/GBP exchange rates;
- increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets;
- changes in laws and regulations, particularly those affecting our operations, the products we sell and the attractiveness of certain products to our consumers;
- regulatory changes relating to the insurance industry in the jurisdictions in which we operate;
- acts of God, acts of terrorism 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;
- our failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving initiatives; and
- the impact on our reported financial results and financial condition as a result of our adoption of International Financial Reporting Standards.

The paper used for this annual report meets the strictest environmental standards set by the Nordic Swan Council and is fully recyclable. It is made at a mill accredited to ISO 14001. The pulp used to produce the paper is generated locally and bleached without the use of elemental chlorine.

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