

AEGON NV  
Form 20-F  
March 30, 2004  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F**

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(Mark One)

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

OR

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10882

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# AEGON N.V.

(Exact name of Registrant as specified in its charter)

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**Not Applicable**

(Translation of Registrant's name into English)

**The Netherlands**

(Jurisdiction of incorporation or organization)

**AEGONplein 50, PO Box 202, 2501 CE The Hague, The Netherlands**

(Address of principal executive offices)

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

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

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

**Not applicable**

(Title of Class)

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

**Not applicable**

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(Title of Class)

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 1,514,377,800 common shares

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.    ☒ Yes    ☐ No    "

Indicate by check mark which financial statement item the registrant has elected to follow.

“ Item 17    ☒ Item 18

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**PRESENTATION OF CERTAIN INFORMATION**

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

In this Annual Report on Form 20-F, references to "EUR" and "euro" are to the lawful currency of the member states of the European Monetary Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union. References to "\$," "USD," "US\$" and "US dollars" are to the lawful currency of the United States of America, references to "NLG" and "guilders" are to what was up to January 1, 2002 the lawful currency of the Netherlands, references to "GBP," "pound sterling" and the "UK pound" are to the lawful currency of the United Kingdom, references to "CAD" and "Canadian dollars" are to the lawful currency of Canada and references to "CNY" are to the lawful currency of the People's Republic of China.

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**FORWARD-LOOKING STATEMENTS**

The statements contained in this Annual Report that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Words such as believe, estimate, intend, may, expect, anticipate, predict, project, count, continue, want, forecast, should, would, is confident and will and similar expressions as they relate to us are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. We undertake no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations, including, but not limited to, the following:

changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom;

changes in the performance of financial markets, including emerging markets, including:

the frequency and severity of defaults by issuers in our fixed income investment portfolios; and

the effects of corporate bankruptcies and/or accounting restatements on the financial markets and the resulting decline in value of equity and debt securities we hold;

the frequency and severity of insured loss events;

changes affecting mortality, morbidity and other factors that may affect the profitability of our insurance products;

changes affecting interest rate levels and continuing low interest levels;

changes affecting currency exchange rates, including the euro/US dollar and euro/UK pound exchange rates;

increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets;

changes in laws and regulations, particularly those affecting our operations, the products we sell and the attractiveness of certain products to our consumers;

regulatory changes relating to the insurance industry in the jurisdictions in which we operate;

acts of God, acts of terrorism and acts of war;

changes in the policies of central banks and/or foreign governments;

litigation or regulatory action that could require us to pay significant damages or change the way we do business;

customer responsiveness to both new products and distribution channels; and

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

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

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**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**3.1 Selected financial data**

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

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

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

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

**Years ended December 31,**

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<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
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(in million EUR, except per share amounts)

**Consolidated income statement information:***Amounts based upon Dutch accounting principles<sup>1</sup>*

Premium income	19,468	21,356	21,578	20,771	14,980
Investment income	7,386	8,394	9,318	9,612	6,690
Fees and commissions <sup>2</sup>	1,221	978	615		
Total revenues <sup>3,4</sup>	28,429	31,144	31,895	30,707	22,374
Income before tax	2,147	1,849	3,243	2,839	2,181
Net income <sup>4</sup>	1,793	1,547	2,397	2,066	1,570
Net income per common share <sup>5</sup>					
Net income	1.15	1.04	1.70	1.51	1.23
Net income, fully diluted	1.15	1.04	1.69	1.49	1.21

*Amounts based upon US GAAP<sup>1, 6</sup>*

Premium income	10,141	10,191	10,214	7,509	5,784
Investment income	6,448	8,640	11,001	12,773	7,013
Total revenues <sup>3,4</sup>	20,123	19,247	21,599	20,654	13,501
Income from continuing operations before tax	2,286	(841)	1,158	3,492	1,950
Net income	1,531	(2,328)	632	2,716	1,601
Net income per common share <sup>5</sup>					
Basic	0.97	(1.62)	0.45	1.98	1.26
Diluted	0.97	(1.62)	0.44	1.96	1.24



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

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

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

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

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

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

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

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

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

**3.2 Dividends**

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

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

<sup>1</sup> Paid, at each shareholder's option, in cash or in stock, except 2002 final dividend.

<sup>2</sup> The final dividend for 2002 was paid entirely in common shares at the rate of one new common share for every 25 common shares held on the record date.

<sup>3</sup> Proposed.

<sup>4</sup> Dividend per share is adjusted for the 2002 stock dividend.

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

Annual dividends on AEGON's preferred shares are calculated as a percentage of the paid-in capital on the preferred shares using a rate equal to the European Central Bank's fixed interest percentage for basic refinancing transactions plus 1.75%, as determined on the first Euronext Amsterdam working day of the financial year to which the dividend relates, resulting in a rate of 4.5% for 2003. Applying this rate to the weighted average paid-in capital of our preferred shares during 2003, the annual dividend on our preferred shares payable for 2003 will be EUR 95.3 million. The rate for annual dividends on preferred shares in 2004, as determined on January 2, 2004, is 3.75% and the annual dividend on preferred shares for 2004, based on the paid-in capital on the preferred shares on January 2, 2004, will be EUR 79.5 million.

### 3.3 Exchange Rates

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

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

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As at March 25, 2004 the USD exchange rate<sup>1</sup> was EUR 1 = USD 1.2170

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

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

The average exchange rates<sup>1</sup> for the US dollar per euro for the five years ended December 31, 2003, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

<u>Year ended December 31,</u>	<u>Average rate</u>
1999	1.0588
2000	0.9207
2001	0.8909
2002	0.9495
2003	1.1411

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

**3.4 Risk Factors****i. Risks relating to AEGON's Business***Interest Rate Risk*

*Interest rate volatility in the form of rapid increases or sustained high or low interest rate levels may adversely affect our profitability and shareholders' equity*

In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may increase and usually do increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments by us requiring that we sell invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. These cash payments to policyholders result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause us to accelerate amortization of policy acquisition costs, reducing net income.

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

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

### *Credit Risk*

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

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

### *Equity Market Risk*

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

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

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

### *Underwriting Risk*

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

Our earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions we use in setting the prices for products and establishing the technical provisions and liabilities for

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

### *Currency Exchange Rate Risk*

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

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

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

### *Liquidity Risk*

*Liquidity risk of certain investment assets*

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



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

**Table of Contents***Other Risks*

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

Claims paying ability and financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade (or the potential for such a downgrade) of us or any of our rated insurance subsidiaries could, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies, adversely affecting relationships with broker-dealers, banks, agents, wholesalers and other distributors of AEGON's products and services. This may result in cash payments by us requiring that we sell invested assets, including illiquid assets, at a price that may result in realized investment losses. These cash payments to policyholders result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause us to accelerate amortization of policy acquisition costs, reducing net income.

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

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

	<u>S&amp;P Rating</u>	<u>S&amp;P Outlook</u>	<u>Moody's Rating</u>	<u>Moody's Outlook</u>
AEGON USA	AA	Stable	Aa3	Stable
AEGON NL	AA	Stable	Not Rated	Not Rated
Scottish Equitable	AA	Negative	A1	Stable

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

Our insurance business is subject to comprehensive regulation and supervision in all countries in which we operate. The primary purpose of such regulation is to protect policyholders, not holders of our securities. Changes in existing insurance laws and regulations may affect the way in which we conduct our business and the products we may offer. For example, we expect our sales to be affected by the new amendments to the Federal Trade Commission Telemarketing Sales Rule as approximately 17% of AEGON USA new health insurance sales in 2002 were generated by telemarketing in the United States. The amendments to the rule, the majority of which went into effect on March 31, 2003, prevent telemarketers from targeting potential customers who have elected to be included in a national Do Not Call list. Moreover, some states also have state wide Do Not Call lists. In addition, changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may also adversely affect our ability to sell new policies or claims exposure on existing policies. Additionally, the insurance laws or regulations adopted or amended from time to time may be more restrictive or may result in higher costs than current requirements.

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

We face significant risks of litigation and regulatory investigations and actions in connection with our activities as an insurer, securities issuer, employer, investment advisor, investor and taxpayer. Lawsuits, including class actions and regulatory actions, may be difficult to assess or quantify, may seek recovery of very large and/or indeterminate amounts, including punitive and treble damages, and their existence and magnitude may remain unknown for substantial periods of time. A substantial legal liability or a significant regulatory action could have a material adverse effect on AEGON's business, results of operations and financial condition.

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*We may be unable to manage our risks successfully through derivatives*

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

*State statutes and/or foreign country regulators may limit the aggregate amount of dividends payable by our subsidiaries to us, thereby limiting our ability to make payments on debt obligations*

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

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

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

*Tax law changes may adversely affect the sale and ownership of insurance products*

Insurance products enjoy certain tax advantages, particularly in the United States and the Netherlands, which permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products under certain conditions and within limits. Taxes, if any, are payable on accumulated tax-deferred earnings when earnings are actually paid. The US Congress has, from time to time, considered possible legislation that would eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. In addition, the United States Congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal of the estate tax continues to be discussed, which could have an impact on insurance products and sales in the United States. Recent changes in tax laws in the Netherlands have reduced the attractiveness of certain of our individual life products. The current administration in the Netherlands has indicated that it is contemplating further changes in law that would eliminate the tax advantages of certain of our products, including group savings products. Any changes in United States or Dutch tax law affecting our products could have a material adverse effect on our business and results of operations and financial condition.

*Competitive factors may adversely affect our market share*

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Competition in our business segments is based on service, product features, price, commission structure, financial strength, claims paying ability, ratings and name recognition. We face intense competition from a large number of other insurers, as well as non-insurance financial services companies such as banks, broker-dealers and asset managers, for individual customers, employer and other group customers and agents and other distributors of insurance and investment products. The recent consolidation in the global financial service industry has also enhanced the competitive position of some of our competitors by broadening the range of their products and

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services, and increasing their distribution channels and their access to capital. In addition, development of alternative distribution channels for certain types of insurance and securities products, including through the Internet, may result in increasing competition as well as pressure on margins for certain types of products. These competitive pressures could result in increased pricing pressures on a number of our products and services, particularly as competitors seek to win market share, and may harm our ability to maintain or increase our profitability.

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

*We may be unable to retain personnel who are key to our business*

As a global financial services enterprise with a decentralized management structure, we rely, to a considerable extent, on the quality of local management in the various countries in which we operate. The success of our operations is dependent, among other things, on our ability to attract and retain highly qualified professional personnel. Competition for key personnel in most countries in which we operate is intense. Our ability to attract and retain key personnel, and in particular senior officers, experienced portfolio managers, mutual fund managers and sales executives, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent, which may offer compensation packages that include considerable equity-based incentives through stock option or similar programs.

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

Judgments of US courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in Dutch courts. As a result, our shareholders that obtain a judgment against us in the United States may not be able to require us to pay the amount of the judgment. It may, however, be possible for a U.S. investor to bring an original action in a Dutch court to enforce liabilities against us, or our affiliates, directors, officers or any expert named herein, who reside outside the United States, based upon the U.S. federal securities laws.

*Reinsurers to whom we have ceded risk may fail to meet their obligations*

Our insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse for the

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ceded amount in the event the claim is paid. However, our insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. See Item 18, Financial Statements Schedule to Financial Statements Reinsurance , of this annual report for a

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

In accordance with industry practices, AEGON reinsures a portion of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Approximately 33 % of our total direct and assumed (for which we act as a reinsurer for others) life insurance in force is ceded to other insurers. In the United States, Transamerica Reinsurance retrocedes a significant portion of the risk it assumes. The major reinsurers of AEGON USA are Manulife Reinsurance Limited, RGA Reinsurance Company, Clarica Life Insurance Company, Munich American Reassurance Company, European Re of Zurich, Security Life of Denver and Swiss Re. The major reinsurers of AEGON UK include GE Frankona, Merrill Lynch Pensions, Invesco Pensions, Baillie Gifford Life, Barclays Global Investors Pensions and Deutsche Asset Management Life and Pensions. The major reinsurers for non-life insurance for AEGON The Netherlands are Partners Re, Parijs, Swiss Re, Zurich, Amstelveen and GE, Frankona. The major reinsurers of ÁB-AEGON, in Hungary, are Swiss Re and München Re. AEGON Spain's major reinsurers are Munchener, Nacional, General Re and Ge Frankona.

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

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

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

## **ii. Risks Relating to AEGON's Common Shares**

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

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



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investor perception of our company;

actual or anticipated variations in our revenues or operating results;

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

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

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

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a downgrade or rumored downgrade of our credit or financial strength ratings, including placement on credit watch;

potential litigation involving us or the insurance industry generally;

changes in financial estimates and recommendations by securities research analysts;

fluctuations in foreign exchange rates and interest rates;

the performance of other companies in the insurance sector;

regulatory developments in the Netherlands, the United States, the United Kingdom and Other Countries;

international political and economic conditions, including the effects of terrorist attacks, military operations and other developments stemming from such events and the uncertainty related to these developments;

news or analyst reports related to our markets or industries in which we operate; and

general market conditions.

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

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

It is possible that we may decide to offer additional common shares in the future, for example to effect an acquisition. In connection with Vereniging AEGON's refinancing in September 2002, it entered into an equity repurchase facility ( Repo Facility ) and a back-up credit facility ( Back-up Facility ). As is customary in these repurchase agreements, if sufficient collateral is not maintained by Vereniging AEGON (which in this case is based on the number of common shares and the prevailing share price) and amounts are not available under the Back-up Facility, the lenders under the Repo Facility may dispose of our common shares held by them under the Repo Facility in order to satisfy amounts outstanding. An additional offering of common shares by us, sales of common shares by significant shareholders or by lenders to Vereniging AEGON, or the public perception that an offering or such sales may occur, could have an adverse effect on the market price of our common shares. As of December 31, 2003, the total authorized share capital of AEGON consisted of 3,000,000,000 common shares, par value euro 0.12 per share, and 1,000,000,000 preferred shares A and B, par value euro 0.25 per share. All AEGON's outstanding common shares are freely tradable in the Netherlands, and all shareholders, including large shareholders such as Vereniging AEGON, are free to resell their shares in the Netherlands at any time.

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

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

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In addition, we have implemented certain changes to our corporate governance structure and our relationship with Vereniging AEGON pursuant to which Vereniging AEGON's voting power under normal circumstances, based on the current numbers of outstanding and voting shares, was reduced to approximately 23% of the votes exercisable in our General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances (such as the acquisition of 15% of our voting shares, a tender offer for our shares or a proposed business combination, each by any person or group of persons whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging AEGON's voting rights will for a limited period of 6 months increase to a percentage, currently amounting to 32.6%. Consequently, Vereniging AEGON may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

adopting amendments to our Articles of Incorporation;

adopting our annual accounts;

approving a consolidation or liquidation;

approving a tender offer, merger, sale of all or substantially all of our assets or other business combination;

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

rejecting Supervisory Board nominations for membership on the Supervisory Board and Executive Board;

appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination; and

suspending or removing an Executive Board or Supervisory Board member other than pursuant to a Supervisory Board proposal.

*Currency fluctuations may adversely affect the trading prices of our common shares and the value of any cash distributions we make*

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

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

Any market that develops for convertible securities or other securities that permit or require us to satisfy our obligations by issuing common shares that we have issued or may issue in the future would be likely to influence, and be influenced by, the market for our common shares. For

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

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### **Item 4. Information on the Company**

#### **4.1 History and Development of the AEGON Group**

##### **i. General**

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

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

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

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

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

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

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

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

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For information on our business segments, see Note 18.3, Segment Information, to our financial statements in Item 18 of this Annual Report. The business activities of our principal subsidiaries are more fully described within the country sections that follow.

Our headquarters are located at:

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2501 CE The Hague

The Netherlands

Telephone number: + 31 70 344 8305

Internet site: [www.aegon.com](http://www.aegon.com)

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### **ii. Strategy**

Our strategy can be summarized as follows:

#### *Commitment to core business*

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

#### *Decentralized organization*

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

#### *Emphasis on profitability*

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

#### *Market position*

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

#### *International expansion*

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

### **iii. Recent Developments and Capital Expenditures and Divestments**



*Restructuring of Relationship with Vereniging AEGON*

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

*Capital Expenditures, Acquisitions and Divestitures*

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

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

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

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

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

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

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

## **4.2 Business Overview**

### **i. Product-line Overview**

#### *General Account Products*

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

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

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

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

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

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

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

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

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

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

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

**Guaranteed Investment Contracts and Funding Agreements.** Guaranteed Investment Contracts (GICs) and Funding Agreements (FAs) contributed 8% of AEGON's income before tax excluding interest charges and other in 2003 (13% in 2002 and 6% in 2001). GICs and FAs are marketed only to institutional investors such as pension funds, retirement plans, college savings programs, money market funds, municipalities

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and U.S. and overseas investors. GICs are primarily sold to tax qualified plans while FAs are typically sold to non-tax qualified institutional investors. The products are marketed directly and through brokers (and independent agents) in the United States and internationally from the United States.

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

### *Products for the Account of Policyholders*

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

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

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

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

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

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

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

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Variable annuities allow a customer to save for the future on a tax-deferred basis and to select payout options that meet the customer's need for income upon maturity, including lump sum payment or income for life or for a period of time.

Premiums paid on variable annuity contracts are invested in funds offered by AEGON, including bond and equity funds, and selected by a client based on the client's preferred level of risk. The assets and liabilities related to this product are legally segregated for the benefit of particular policyholders in separate accounts of the insurance company (classified as investments for the account of policyholders).

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

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

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

corporate defined benefit plans;

corporate defined contribution plans (401(k) plans);

not-for-profit organizations qualifying for tax qualified annuities under section 403(b) of the US Internal Revenue Code; and

non-qualified 457 plans available to government and tax-exempt organizations.

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

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



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

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

AEGON's operations in the Netherlands offer financial advice and are involved in intercession activities in real estate. The financial advice activities include selling insurance, pensions, mortgages, financing, savings and investment products. The intercession activities in real estate comprise brokerage activities of residential as well as commercial real estate and real estate management business.

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

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

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

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

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

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

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

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

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

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

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

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### **ii Supervision**

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

Both the insurance and banking companies in the AEGON Group are also required to maintain a minimum solvency margin based on local requirements. The required solvency margin is the sum of the margins of each of AEGON's insurance and banking subsidiaries, based on the requirements of European directives. Available liability capital includes shareholders' equity, capital securities and subordinated loans.

### **4.3 The Americas**

#### **i. General History**

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

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

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

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

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

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

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

Monumental Life Insurance Company, Baltimore (Maryland USA);

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

Stonebridge Casualty Insurance Company, Columbus (Ohio USA);

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

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

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

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

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

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

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

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

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

### **ii. Products and Distribution**

#### *Agency Group*

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

AEGON Financial Partners;

Life Investors Career Agents/Independent Producers Group;

Intersecurities, Inc.;

Transamerica Insurance & Investment Group;

World Financial Group;

Monumental Division;

Long Term Care Division; and

Worksite Marketing.

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

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

Intersecurities, Inc. (ISI) is a fully licensed, independent broker-dealer and registered investment advisor. ISI's 2,500 registered representatives are focused on helping clients meet their investment objectives through an array of financial products, including mutual funds, fixed and variable life insurance, annuities, and securities. ISI is

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positioning itself for growth by building an internal wholesaling unit for life products within already existing channels and leveraging the wholesaling expertise of its affiliate, Transamerica Capital, Inc., for variable products.

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

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

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

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

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

### *Direct Marketing Services Group*

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

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



associations.

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

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### *Financial Markets Group*

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

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

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

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

### *Institutional Products and Services Group*

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

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

Transamerica Reinsurance provides traditional risk and capital management, facultative and contract underwriting services, product development services and term insurance wholesaling. It provides coinsurance and modified coinsurance of fixed and variable annuities. In the U.S., customer focus is on large, primary insurance carriers and other significant businesses in the financial services arena. Transamerica Reinsurance writes reinsurance directly with its ceding company clients rather than through brokers. This direct relationship produces an expense advantage and a more complete understanding of risks while contributing to more favorable underwriting results and deeper,

longer-lasting customer relationships. In today's highly competitive reinsurance environment, Transamerica Reinsurance distinguishes itself through its knowledge and experience in assessing

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and pricing mortality risk, underwriting and private label term services. Transamerica Reinsurance continues to advance international efforts, with a focus on select markets in Latin America and the Asia Pacific region. Foreign offices have been established in Taipei (Taiwan), Seoul (Korea), Hong Kong, Tokyo (Japan), Mexico City (Mexico) and Santiago (Chile). Transamerica Reinsurance writes business through various AEGON USA companies as well as offshore affiliates, Transamerica International Re (Bermuda) Ltd. and Transamerica International Reinsurance Ireland Limited.

### *Pension Group*

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

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

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

### **iii. Asset Liability Management**

AEGON's U.S. subsidiaries are subject to regulation under the laws of the states in which they are domiciled. Each state's laws prescribe the nature, quality and percentage of various types of investments that may be made by the subsidiaries. Such laws generally permit investments in qualified state, municipal and federal government obligations, corporate debt, preferred and common stock, real estate and real estate mortgages for less than the value of the mortgaged property.

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

The AEGON USA companies manage their asset liability through the work of several committees. These committees review strategies, define risk measures, define and review asset liability management studies, examine risk hedging techniques, including the use of derivatives, and analyze the potential use of new asset classes. Cash flow testing analysis is performed using computer simulations, which model assets and

liabilities under stochastically projected interest rate scenarios and commonly used stress-test interest rate scenarios. Based on the results of these computer simulations, the investment portfolio is structured to maintain a desired investment spread between the yield on the portfolio assets and the rate credited on the policy liabilities. Interest rate scenario testing is a continual process and the analysis of the expected values and variability for three critical risk measures (cash flows, present value of profits and interest rate spreads) forms the foundation for modifying investment strategies, adjusting asset duration and mix and exploring hedging opportunities. On the liability side, AEGON USA has some offsetting risks: some liabilities perform better in rising interest rate environments while others perform well in a falling interest rate environment. On the asset side, hedging instruments are continuously studied to determine if their cost is commensurate to the risk reduction they offer.

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### **iv. Reinsurance ceded**

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

### **v. Competition**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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





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### **vi. Regulation**

AEGON's U.S. insurance subsidiaries are subject to regulation and supervision in the states in which they transact business. Supervisory agencies in each of those states have broad powers to grant or revoke licenses to transact business, regulate trade and marketing practices, license agents, approve policy forms and certain premium rates, set reserve and capital requirements, determine the form and content of required financial reports, examine the insurance companies and prescribe the type and amount of investments permitted.

Insurance companies are subject to a mandatory audit every three to five years by their domestic regulatory authorities and every year by their independent auditors. In addition, examinations by non-domestic state insurance departments have increased, both on a targeted and random or cyclical basis. Within the insurance industry, substantial liability has been incurred by insurance companies based upon their past sales and marketing practices. While AEGON USA has focused and continues to focus on these compliance issues, costs have increased as a result of these activities.

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

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

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

Insurance holding company statutes and the regulations of each insurer's domiciliary state in the United States impose various limitations on investments in affiliates and may require prior approval of the payment of certain dividends by the registered insurer to AEGON or certain of its affiliates. Since AEGON's primary source of income is dividends from its insurance company subsidiaries, its ability to meet its obligations and pay dividends to its shareholders may be affected by any such required approval.

Some of AEGON USA's investment advisory activities are subject to federal and state securities laws and regulations. AEGON USA's mutual funds are registered under the Securities Act of 1933, as amended (the Securities Act), and the Investment Company Act of 1940 (the Investment Company Act). With the exception of its investment accounts which fund private placement investment options that are exempt from registration, or support fixed rate investment options that are also exempt from registration, all of AEGON USA's separate investment accounts that fund retail variable annuity contracts and retail variable life insurance products issued by us are registered both under the Securities Act and

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the Investment Company Act. Institutional products such as group annuity contracts, guaranteed investment contracts and funding agreements are sold to tax qualified pension plans or are sold to other sophisticated investors as private placements and are exempt from registration under both acts.

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Some of AEGON USA's subsidiaries are registered as broker-dealers under the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"), and with the National Association of Securities Dealers, Inc (NASD). A number of AEGON USA's subsidiaries are also registered as investment advisors under the Investment Advisers Act of 1940. AEGON USA's insurance companies or other subsidiaries also own or manage other investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other requirements of those laws, such as antifraud provisions and the terms of applicable exemptions.

The financial services industry, including businesses engaged in issuing, administering and selling variable insurance products, mutual funds and other securities as well as broker/dealers, has come under heightened scrutiny and increased regulation. Such scrutiny and regulation have included matters relating to so-called "market timing", "late trading" and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. We, like other companies in the financial services industry, have received inquiries and requests for information from regulators and others relating to our historical and current practices with respect to these and other matters, and expect that new rules and regulations governing such matters may be implemented. We are cooperating with these regulatory agencies and are responding to those information requests.

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

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

## **vii. Canada**

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

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

Operations are divided into six business segments:

life insurance;

segregated funds;

retail mutual funds;

mutual fund dealership services;

retail financial planning services; and

investment portfolio management and counselling services.

The primary operating companies that comprise ACI are:

Transamerica Life Canada;

Money Concepts (Canada) Limited;

AEGON Dealer Services Inc.;

AEGON Capital Management Inc.; and

AEGON Fund Management Inc.

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

### *Investment Products*

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

### *Life Insurance Products*

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

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

independent managing general agencies;

TLC owned and operated Profit Center Agencies;

bank-owned national broker-dealers;

World Financial Group; and

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

TLC is incorporated under the Canadian Business Corporation Act and is regulated by the laws established in the Insurance Companies Act of Canada. In addition, TLC is subject to the laws, regulations and insurance commissions of each of Canada's ten provinces. The laws of these jurisdictions generally establish supervisory agencies with broad administrative powers relative to granting and revoking licences to transact

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business, regulating trade practices, licensing agents, establishing reserve requirements, determining permitted investments and establishing minimum levels of capital. TLC's ability to continue to conduct its insurance business is dependent upon the maintenance of its licences, at both a federal and provincial level. The primary regulator for TLC is the Office of the Superintendent of Financial Institutions. TLC is required under the Insurance Companies Act of Canada to have at least seven directors, 50% of whom must be residents of Canada and not more than two-thirds of whom can be affiliated with TLC.

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

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

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### **4.4 The Netherlands**

#### **i. General History**

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

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

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

The primary operating subsidiaries in the Netherlands are:

AEGON Levensverzekering N.V., The Hague;

AEGON Schadeverzekering N.V., The Hague;

AEGON Nabestaanden Zorg N.V., Groningen;

AEGON Spaarkas N.V., The Hague;

AEGON Bank N.V., Utrecht;

Spaarbeleg Kas N.V., Utrecht;

Meeùs Groep B.V., Amersfoort; and

TKP Pensioen B.V., Groningen.

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



**ii. Recent Developments and Capital Expenditures and Divestments**

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

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

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

Meeùs Groep B.V.;

Elan Financieel Adviesbureau B.V.;

Nedasco B.V.; and

Adviespunt Nederland Associatie B.V. (Spaaradvies).

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

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

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

### **iii. Products and Distribution**

AEGON The Netherlands offers five product lines:

pensions;

life insurance;

non-life insurance;

banking; and

asset management.

#### *Pensions*

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

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

Products for account of policyholders with guarantees (separate investment guaranteed contracts);

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

Medium and Small Sized Enterprises growth pensions;

Medium and Small Sized Enterprises guarantee pensions;

AEGON pension package (defined contribution); and

AEGON guarantee pension (defined benefit).

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

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

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

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

### *Life Insurance*

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

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

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

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

Spaarbeleg Kas N.V. and AEGON Spaarkas N.V. sell Spaarkas products, which are life products with both single and recurring premiums and profit sharing based on a tontine system. The main characteristic of a tontine system is that when death occurs, the balance in the investment account is not paid out to the policyholder's estate, but is distributed at the end of the year to the surviving policyholders of the specific series (a new series starts at the beginning of each calendar year) to which the deceased policyholder belonged. In addition to the tontine products, Spaarbeleg Kas N.V. sells a number of tax driven products like Futureplan (Toekomstplan) and Index Plan (Koersplan) and has provided better access to products and services in order to meet consumers' requests with respect to pension issues. Products are sold through a number of intermediaries and by direct marketing.

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

planning and are customized to this specific segment.

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

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

### *Non-life Products*

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

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

### *Banking*

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

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

### *Asset Management*

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

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

### *Distribution units*

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

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### **iv. Asset Liability Management**

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

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

Most of AEGON The Netherlands' investments are managed in-house by AEGON Asset Management. For certain specialized investments, such as hedge funds and private equity, AEGON The Netherlands hires external managers.

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

### **v. Reinsurance ceded**

#### *Life*

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

#### *Non-life*

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

### **vi. Competition**



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

### **vii. Regulation**

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

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

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

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

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

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

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

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

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

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

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

AEGON Levensverzekering N.V.;

AEGON Schadeverzekering N.V.;

AEGON Spaarkas N.V.;

Spaarbeleg Kas N.V.;

AXENT/AEGON Leven N.V.;

AEGON Nabestaanden Zorg N.V.;

Axent/AEGON Uitvaartverzekeringen N.V.;

Axent/AEGON Sparen N.V.; and

Axent/AEGON Schade N.V.

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

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

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

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### **4.5 United Kingdom**

#### **i. General History**

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

The primary operating subsidiaries of AEGON UK are:

Scottish Equitable plc, Edinburgh;

Guardian Assurance plc, Lytham St Annes;

Guardian Linked Life Assurance Ltd, Lytham St Annes;

Guardian Pensions Management Ltd, Lytham St Annes;

AEGON Asset Management UK plc, London;

HS Administrative Services Ltd, Chester; and

AEGON UK Distribution Holdings Ltd, London.

#### **ii. Recent Developments and Capital Expenditures and Divestments**

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

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

AEGON Asset Management investment management operations; and

AEGON UK Distribution network of distribution intermediary businesses.

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

### **iii. Products and Distribution**

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

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

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### *Pensions*

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

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

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

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

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

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

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

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

*UK and Offshore Bonds*

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

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

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

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

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

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

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

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

### *Individual Protection*

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

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

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



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

*Group Risk Contracts*

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

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

### *Mutual Funds*

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

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

### *Advice*

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

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

## **iv. Distribution Channels**

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

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

To support this activity, there are approximately 330 broker-consultants based in the United Kingdom, operating out of seventeen local branch offices. Relationship management is a core element of achieving success in the intermediate channel. Scottish Equitable plc is able to support

local independent investment advisors through this branch network in areas such as business development and training.

**v. Asset Liability Management**

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

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

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

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

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

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

### **vi. Reinsurance**

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

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

### **vii. Competition**

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

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

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

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

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

### **viii. Regulation**

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

The Financial Services Authority acts as both a prudential and conduct-of-business supervisor. As such, it sets minimum standards for capital adequacy and solvency, and regulates the sales and marketing activities of the regulated companies. New rules relating to capital requirements for life insurers are due to be implemented in the second half of 2004, which could have a significant impact on levels of surplus capital in the UK industry.

All directors and some senior managers of AEGON UK undertaking particular roles (for example as Appointed Actuary, Fund Managers and Dealers and Salesmen) enter into direct contracts with the Financial Services Authority as Approved Persons. As such, they are subject to rigorous pre-appointment checks on their integrity and competence, and are subject to ongoing supervision throughout their mandate as Approved Persons and for a limited period afterwards.

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

## **4.6 Hungary**

### **i. General History**

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

ÁB-AEGON has four subsidiaries:

AEGON Securities;

AEGON Real Estate;

AEGON Pension Fund Management Co.; and

AEGON Hungary Fund Management Co.

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

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**ii. Products and Distribution**

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

*Pension Insurance.*

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

*Traditional General Account Products.*

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

*Unit-linked Products.*

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

*Group Life Products.*

These products are mostly identical to unit-linked products and some of them have guaranteed interest and accidental health coverage. They are sold to companies covering large groups of employees, not individuals.



*Asset Management.*

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

**iii. Distribution channels**

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

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

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

### **iv. Asset Liability Management**

ÁB-AEGON has a centralized investment organization. The investment department makes all strategic and tactical decisions related to investments. ÁB-AEGON has its own security, fund management and real estate subsidiaries, which are all coordinated by the investment department. Portfolio management services are provided by AEGON Hungary Fund Management Company under the direction of the investment department. AEGON Hungary Fund Management Company handles its own account and unit-linked portfolio, as well as the portfolio of the four mutual funds and the assets of the pension fund.

The AEGON Pension Fund Management Co. is responsible for the operation and management of the voluntary and mandatory pension funds. Its two main sources of income are the management fee and the investment fee it charges. The investment fee is shared with AEGON Hungary Fund Management Company, which is the asset manager of the AEGON pension funds.

The Hungarian Insurance Act imposes very strict requirements on investments by insurance companies. The laws protect the interest of the public and provide guidelines for portfolio composition as well as minimal capital and reserve requirements. The assets backing the reserves must be invested within strict limits established to reduce risk and assure liquidity.

Most investment activities fall under the scope of the Security Act. This Act regulates all operations related to securities in Hungary and the organization and capital adequacy of Hungarian security companies.

ÁB-AEGON follows a very conservative investment policy. The main part of the portfolio consists of government issues and mortgage bonds. Shares and real estate play a very marginal role. ÁB-AEGON's asset liability management model is based on duration management. The investment department is responsible for the duration management and determines the portfolio of assets required to match the characteristics of product liabilities.

### **v. Reinsurance**

ÁB-AEGON's reinsurance partners are all large European reinsurers in the European and London markets. In accordance with ÁB-AEGON's security guidelines, only reinsurers with a minimum rating of A+ (Standard & Poor's) are utilized. The three most important programs in force in the last ten years are the Catastrophe Excess of Loss Treaty, the Motor Third Party Liability Excess of Loss Treaty and the Property per Risk Excess of Loss Treaty. ÁB-AEGON's catastrophe cover, which protects private homeowners, is quite significant in the Hungarian market. In

addition, ÁB-AEGON has smaller treaties for other business lines, such as General Third Party Liability, Marine Cargo and Life & Group Life Business. The majority of ÁB-AEGON's programs are non-proportional Excess of Loss programs.

**vi. Competition**

The Hungarian insurance industry is very concentrated, with five to six major companies comprising 80 to 83% of the segment, based on premium income. However, the income share concentration in the market is slowly decreasing: there are now more than 20 insurance companies active in Hungary. In 2003, ÁB-AEGON had the second largest life insurance premium income. ÁB-AEGON is a leader in household insurance premiums and has the largest portfolio (source: annual and quarterly reports of the Hungarian insurance sector, 2003). ÁB-AEGON's segment share in motor and property insurance is less significant.

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ÁB-AEGON is one of the largest institutional investors in Hungary, with more than EUR 1.4 billion in assets under management.

ÁB-AEGON had the highest profit in the Hungarian insurance industry in 2002. In 2002, ÁB-AEGON's net profit after tax exceeded 49% of the total profit of the sector (source: income statement of the Hungarian insurance sector, 2002).

### **vii. Regulation**

In Hungary, the Insurance Act (XCVI. 1995) regulates the foundation, operation and reporting obligations of insurance companies. Since 1995, insurance companies can be licensed only for separate businesses: a company can conduct either life insurance or non-life insurance businesses but cannot operate both businesses together (although insurance companies established before 1995, including ÁB-AEGON, are exempted from this rule).

The main supervisory institution is the Hungarian Financial Supervisory Authority, which has a department that deals with the insurance sector. It can investigate insurance companies' activities and relationships.

In addition to legal regulation, insurance companies have a self-regulatory body called the Hungarian Insurance Association. It is the main forum for discussion amongst insurance companies. Its specialized departments (including actuarial, financial and legal departments) meet periodically. The Hungarian Insurance Association also engages in lobbying activities.

As one of the largest institutional investors in Hungary, the investment operations of ÁB-AEGON are also regulated by the Security Act. The Security Act affects all investment activities related to securities. The strict requirements of the Security Act protect the interests of the public and ensure a transparent and reliable investment environment.

### **viii. Slovakia**

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

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

### **4.7 Spain**

**i. General History**

In Spain, AEGON operated in 2003 through three insurance companies: AEGON Seguros Generales, AEGON Seguros Salud and AEGON Seguros de Vida. Since December 2003 these companies have been consolidated under AEGON España SA to achieve administrative and operational efficiency. In December 2003 AEGON Moneymaxx SA merged into AEGON Seguros de Vida.

AEGON entered the Spanish market in 1980 by acquiring Seguros Galicia. AEGON also acquired Union Levantina in 1987, Union Previsora in 1988, Labor Medica in 1996, La Sanitaria in 1997, Caja de Prevision y Socorro in 1997 and Covadonga at the end of 1999.

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Twenty-two percent of AEGON Spain's 2003 premium income was derived from life insurance; 63% was derived from property and casualty insurance and 15% was derived from health insurance. At December 31, 2003, AEGON Spain employed a staff of 680 employees.

### **ii. Products and Distribution**

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

With respect to life insurance, AEGON Spain's principal lines of business are traditional life and unit-linked insurance products. 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 centres by specialized agents and brokers and in rural areas by specialized agents and on a direct marketing basis using the Moneymaxx concept. Group life products are distributed through banks and financial institutions as well as through brokers and specialized agents.

### **iii. Asset Liability Management**

AEGON Spain's approach to asset liability management is to make projections of both asset and liability cash flows, to calculate their present values using a market yield curve and to calculate the main parameters affecting these cash flows, such as duration and convexity, among others. The goal is to lock in the spread by matching the duration of assets to the duration of liabilities. In order to exploit the economies of scale of the AEGON Group, part of AEGON Spain's investment portfolio is managed by AEGON The Netherlands, but remains closely supervised by AEGON Spain.

### **iv. Reinsurance**

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

### **v. Competition**

Competition in Spain is significant. Among AEGON Spain's major competitors are the bank-owned insurance companies for life and pension products, and foreign and local companies for property & casualty insurance products.

**vi. Regulation**

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

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

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### **4.8 Taiwan**

#### **i. 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 as a result of the Transamerica acquisition and its integration with the existing operation 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. In 2001, AEGON Taiwan moved into a new head office in Taipei. The principal business place of AEGON Taiwan is located at No. 39, Sec. 1, Chung-Hua Road, Taipei, Taiwan. Total employment of AEGON Taiwan as at December 31, 2003 was 825, including 548 agents.

#### **ii. Products and Distribution**

The product portfolio consists primarily of traditional life products, such as increasing/level whole life, female whole life, coupon whole life, endowment life, term life, one-year term health/accident rider and waiver of premium rider products. Variable universal life, introduced in April 2002, is one of the major products in the agency channel. Female whole life is a unique product that offers life protection, female specific illness benefits and a survival benefit.

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

#### **iii. Asset Liability Management**

Asset liability management is an integral part of AEGON Taiwan's newly instituted risk management process. AEGON Taiwan's asset liability management policy aims to match assets and liabilities and reduce total risk while maximizing investment yield. To achieve these objectives, broad risk limits are established for the investment portfolio given the general account liabilities as defined by a baseline investment policy statement. The calculation also takes into account the duration of assets and liabilities and the capital at risk. The long-term duration mismatch goal is plus or minus 0.75 years.

#### **iv. Distribution channels**

Most of the business in the agency channel consists of traditional life business while the variable universal life business accounts for the remainder.



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

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

Distributions through brokerage and bancassurance have shown an enormous growth in the new business volumes. In 2003, brokerage and banks together accounted for approximately 90% of the AEGON Taiwan's total new business premiums.

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

### **v. Competition**

The life insurance industry in Taiwan has shown significant growth in recent years. Between 1997 and 2002, life insurance premium income in Taiwan grew at an annual growth rate of 16% based on statistics released by the Life Insurance Association of the Republic of China. As at the end of 2002, there were 28 life insurance companies in Taiwan, 19 of which were domestic companies and 9 were foreign-branch offices. In 2002, insurance premium totalled NTD 889 billion with the top five companies accounting for around 73%.

With the introduction of new regulations to facilitate the formation of financial holding companies, which allow banks to broaden their activities into insurance, the bancassurance channel is forecasted to develop very rapidly. Owing to the increase in competition with bancassurance, direct marketing and brokers, the number of career agents was reduced by 4% from a year ago.

### **vi. Regulation**

AEGON Taiwan is subject to regulation and supervision by the Minister of Finance. The regulation covers the licensing of agents, the approval of the insurance policies, the regulation of premium rates, the establishment of reserve requirements, the regulation of the type and amount of investments permitted and prescribing of minimum levels of capital.

## **4.9 China**

### **i. General History**

After a twelve-month preparatory period AEGON-CNOOC Life Insurance Company China, a 50/50 joint venture with China National Offshore Oil Corporation, started its operations in mainland China in May 2003.

AEGON CNOOC's headquarter is located in Shanghai.

### **ii. Recent developments, competition and distribution**

The SARS outbreak in China in early 2003 did not delay the opening of business. AEGON-CNOOC launched 13 basic products and 8 riders to the markets, including whole life, endowment, dread disease, accidental death and dismemberment and surgical indemnity. These are all

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traditional life products sold through various channels. AEGON-CNOOC also launched a SARS product - SARS Guard to meet customer demand.

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

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

### **4.10 Transamerica Finance Corporation**

The non-insurance operations of Transamerica Corporation consist of commercial lending, intermodal leasing, real estate services, and certain real estate and investments. The majority of these operations are conducted through Transamerica Finance Corporation (TFC), a wholly owned subsidiary of Transamerica Corporation. TFC conducts business primarily through its subsidiaries in commercial lending, intermodal leasing, and real estate information services. The commercial lending operation makes commercial loans through four businesses: distribution finance, business capital, equipment financial services and specialty finance. It has offices in the United States, Mexico, Canada and Europe. The intermodal leasing operation provides service, rentals and term operating leases through a worldwide network of offices, third party depots and other facilities. The intermodal leasing operation offers a wide variety of equipment used in international and domestic commerce around the world. Its fleet consists of over 637,000 marine containers (consisting of units that are owned and units that are managed for and leased from others) and over 18,000 European trailers. Real estate information services provides property tax payment and reporting, flood certification and other real estate information services to its customers.

On August 5, 2003, AEGON announced an agreement to sell most of the commercial lending businesses of TFC to GE Commercial Finance. The sales price of approximately USD 5.4 billion resulted in an after-tax book gain of around USD 200 million. On January 14, 2004 the transaction was closed and the book gain will be added directly to shareholders' equity in 2004. On October 2, 2003, AEGON completed the sale of TFC's real estate tax service and flood hazard certification businesses to First American Corporation for a total cash purchase price of USD 400 million. As part of the transaction, TFC's real estate tax service subsidiary has distributed assets valued at USD 246 million to TFC. The sale of the two TFC subsidiaries, combined with the asset distribution transaction, resulted in an after-tax book gain of USD 347 million, which was added directly to shareholders' equity against the invested capital charged earlier to equity as goodwill.

Due to the dissimilarity in their operations in relation to the operations of AEGON, these non-insurance operations have not been consolidated.

### **4.11 Organizational Structure**

AEGON N.V. is a holding company that operates through its subsidiaries. For a list of names and locations of the most important group companies, see Exhibit 8.

The main operating units of the AEGON Group are separate legal entities organized under the laws of their respective countries. The shares of those legal entities are directly or indirectly held by two intermediate holding companies incorporated under Dutch law. AEGON Nederland N.V., parent company of the Dutch operations as well as the German venture, and AEGON International N.V., which holds the Group companies (all of which are wholly-owned, unless otherwise indicated) in the United States, Canada, the United Kingdom, Hungary, Spain (99.98%) and Taiwan.

### **4.12 Description of Property**

In the United States, we own many of the buildings we use in the normal course of our business, primarily as offices. We own 14 offices located throughout the United States with a total square footage of 2.1 million. We also lease office space for various offices located throughout the United State under long-term leases with a total square footage of 1.7 million. Our principal offices are located in Baltimore, Maryland; Cedar Rapids, Iowa; Louisville, Kentucky; Los Angeles, California; Frazer, Pennsylvania; St Petersburg, Florida; Plano, Texas; Kansas City, Missouri; Purchase, New York; and Charlotte, North Carolina.

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

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

### **5.1 Introduction**

AEGON is committed to providing information on key factors that drive its business and affect its financial condition, results and value. Our disclosure practices have been developed over many years with due consideration of the needs and requirements of our stakeholders, including regulators, investors and research analysts. We have substantive supplemental information in our annual and quarterly accounts to provide transparency of our financial results. We have provided insight into our critical accounting policies and the methodologies we apply to manage our risks. For a discussion of critical accounting policies see - Application of Critical Accounting Policies Dutch Accounting Policies and Application of Critical Accounting Policies US GAAP . For a discussion of our risk management methodologies see Item 11, Quantitative and Qualitative Disclosure About Market Risk .

### **5.2 Outlook 2004**

The Company believes the outlook remains positive. We expect increased volatility of net income as a result of the discontinuance of the indirect income method, effective January 1, 2004. AEGON is not providing earnings forecasts.

### **5.3 Application of Critical Accounting Policies Dutch Accounting Principles**

The Operating and Financial Review and Prospects are based upon AEGON's consolidated financial statements, which have been prepared in accordance with Dutch accounting principles. The application of Dutch accounting principles requires our management to use judgments involving assumptions and estimates concerning future results or other developments including the likelihood, timing or amount of one or more future transactions or events. There can be no assurance that actual results will not differ from those estimates. Senior management reviews these judgments frequently and an understanding of these judgments may enhance the reader's understanding of the AEGON's financial statements in Item 18 of this Annual Report. We have summarized below the Dutch accounting policies that we feel are most critical to the financial statement presentation and that require significant judgment or involve complex estimates.

#### **i. Technical Provisions Life Insurance**

##### *General*

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Actuarial assumptions and their sensitivities underlie the calculation of technical provisions, which are based on generally accepted reserve valuation standards. In the ordinary course of business, our management makes assumptions for and estimates of future premiums, mortality, morbidity, investment returns, 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 from these assumptions. The assumptions used are regularly reviewed, compared to actual experience and, if necessary, depending on the type of products, updated. Assumptions are made regarding future investment yields for both the pricing and the assessment of profitability of many general account products and products for the account of policyholders. Assumed yields are based on management's best estimates. Periodically, AEGON assesses the impact of fluctuations of future investment yields on pricing and profitability. For products where AEGON offers explicit benefit guarantees to its clients, product pricing reflects these guarantees.

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### *Reserve for Guaranteed Minimum Benefits (GMBs)*

Guaranteed minimum benefits are contained in certain products offered in the United States, Canada and the Netherlands. An additional technical provision is recognized in the income statement to the extent that products contain a guaranteed minimum benefit. For these products the regular technical provision is recognized under technical provisions with investments for account of policyholders. The life insurance technical provision includes provisions for guaranteed minimum benefits related to contracts where the policyholders otherwise bear the investment risk. The main products are summarized below:

guaranteed minimum benefits on variable products, primarily variable annuities, in the United States;

guaranteed minimum accumulation benefits on segregated funds in Canada; and

guaranteed return on certain unit-linked products in the Netherlands.

In the United States a common feature of variable annuities is a guaranteed minimum death benefit, under which, the beneficiaries receive the greater of the account balance or the guaranteed amount when the insured dies. 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. Our technical 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. See the following section on the accounting policy for deferred policy acquisition costs for a discussion of the various assumptions involved in the calculation. Within the cap and floor corridor, we use the accrual method based on pricing assumptions with valuation interest less actual claims incurred. Outside the cap and floor corridor, a surplus or shortfall of the provision will cause an extra charge or credit to the income statement.

In Canada, variable products sold are known as segregated funds. Segregated funds are similar to mutual funds except they include a capital protection guarantee for mortality and maturity. The initial guarantee period is 10 years. The 10-year period may be reset at the contract-holder's option to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio (MER) charged to the funds is not guaranteed and can be increased at management's discretion. Our provisions for the minimum guarantees on segregated funds are established consistent with the method described above for minimum guarantees on variable annuity contracts sold in the United States.

In the Netherlands Fundplan policies have a guaranteed return of 3% or 4% at maturity or upon the death of the insured if the premium is paid for a consecutive period of 10 years and is invested in the Mixed Fund and/or Fixed Income Fund. For this guaranteed return, we establish a provision 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 products, these guarantees have a long-term horizon of approximately 30 to 60 years. The provision is developed applying the accrual method based on pricing assumptions less actual deductions.

The US variable annuity account balance at December 31, 2003 was EUR 29.2 billion (EUR 27.3 billion at December 31, 2002), and the GMDDB reserve balance totaled EUR 225 million at December 31, 2003 (EUR 257 million at December 2002), with an addition of EUR 12 million during 2003 (2002: EUR 214 million). Other movements in the GMDDB reserve balance mainly relates to foreign currency translation differences.



For the Canadian Segregated funds the account balance at December 31, 2003 was EUR 2.9 billion (EUR 2.5 billion at December 31, 2002) and the GMB reserve balance totaled EUR 102 million at December 31, 2003 (EUR 76 million at December 31, 2002), with an addition of EUR 25 million during 2003 (2002: EUR 59 million). Other movements in the GMB reserve balance mainly relates to foreign currency translation differences.

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The Netherlands unit linked policies, including group contracts had an account balance of EUR 9.3 billion at December 31, 2003 (EUR 7.5 billion at December 31, 2002) and the GMB reserve totaled EUR 278 million at December 31, 2003 (EUR 236 million at December 31, 2002), with an addition of EUR 31 million during 2003 (2002: EUR 209 million).

The total Net Amount at Risk (excess of guaranteed amount over account values) at December 31, 2003 amounted to EUR 5.1 billion (2002: EUR 8.3 billion). It should be noted that the net amount at risk (NAR) is a gross exposure and does not take into account the impact of mortality and lapse decrements nor does it recognize future premium income and investment returns.

### **ii. Amortization of Deferred Policy Acquisition Cost, including Value of Business Acquired**

AEGON defers policy acquisition costs (DPAC) that vary with and are primarily related to the acquisition of new or renewal life insurance contracts. Such costs consist principally of commissions, certain underwriting and contract issue expenses. Policy acquisition costs 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. DPAC is deducted from the technical provision life insurance. Included in DPAC is an amount of value of business acquired (VOBA) resulting from acquisitions, which is equal to the present value of estimated future profits of insurance policies in force related to business acquired at the time of the acquisition and is in its nature the same as DPAC.

#### *Fixed Premium Products*

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.

#### *Flexible Premium Products*

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

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growth rate after considering the net effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). At December 31, 2003 the U.S. reversion to the mean assumptions for variable products, primarily annuities, were as follows: gross long-term equity growth rate was 9% (2002: 9%), gross short term growth rate was 7.5% (2002: 12%), the reversion period for the short term rate is five years, the gross short and long-term fixed security growth rate was 6% and the gross short and long term

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growth rate for money market funds was 3.5%. For AEGON Canada the short-term equity growth rate was 9.5% (2002: 9.5%) and the long-term security growth rate was 10.75% (2002: 12.5%). 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. AEGON recorded an accelerated DPAC amortization charge of EUR 129 million in 2003 mainly due to higher lapses and primarily related to the Americas, compared to a charge of EUR 450 million for 2002.

The movement in DPAC (life insurance) over 2003 can be summarized as follows:

	<b>2003</b>	<b>2002</b>
	<b>in million EUR</b>	
Balance at January 1	14,089	15,264
Deferred during the year	1,847	2,486
Amortization charged to the income statement	(1,455)	(1,520)
Other changes <sup>1</sup>	(2,034)	(2,141)
Balance at December 31	12,447	14,089

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

Included in our DPAC is a substantial amount of VOBA resulting from acquisitions, which in its nature is similar to DPAC and is subject to the same testing and amortization requirements. At December 31, 2003, the VOBA amounted to approximately EUR 4.0 billion (2001: EUR 5.3 billion).

The movement in DPAC (non-life insurance) over 2003 can be summarized as follows:

	<b>2003</b>	<b>2002</b>
	<b>in million EUR</b>	
Balance at January 1	1,109	1,202
Deferred during the year	291	401
Amortization charged to the income statement	(273)	(328)
Other changes <sup>1</sup>	(180)	(166)
Balance at December 31	947	1,109

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



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DPAC balances at December 31, 2003 by product and geographic segment are as follows:

	<b>Americas</b>	<b>The Netherlands</b>	<b>United Kingdom</b>	<b>Other countries</b>	<b>Total</b>
<b>in million EUR</b>					
Traditional life	3,893	199	151	149	4,392
Fixed annuities	1,605				1,605
GICs and Funding Agreements	28				28
Life for account of policyholder	639	798	3,561	28	5,026
Variable annuities	1,300				1,300
Fee business	90		6		96
Accident and health	910	37			947
<b>Total</b>	<b>8,465</b>	<b>1,034</b>	<b>3,718</b>	<b>177</b>	<b>13,394</b>
of which VOBA	2,745		1,205		3,950

The following table illustrates certain sensitivities of our DPAC and guaranteed benefits provisioning on a Dutch accounting principles basis to equity market returns:

One-time effect of changes in long-term assumptions:

effect on net income of lowering equity assumptions by 1% in all years	:approx. USD (75) million
effect on net income of eliminating the mean reversion in the short-term equity growth rate assumptions	:approx. USD 15 million
effect on net earnings of lowering long term fixed income assumptions 1%	:approx. USD (30) million

**iii. Default Reserve and Impairment of Debt Securities**

Provisions for possible losses on fixed income investments (bonds, mortgage loans and private placements) are established as a result of default or other credit related issues. The provision reflects our management's judgment about future defaults and is based upon pricing factors for default assumptions. These annual default loss expectations are formulated using various default factors per asset classification.

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

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In the United States a reduction in the carrying value is made for Bonds and Other loans that are considered impaired. Such reductions are charged against the default provision. The determination of the amount of the write-down is based upon management's best estimate of the future recoverable value of the debt security 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.

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Realized losses on debt securities considered default losses are charged against the default reserve. All other losses are deferred in accordance with Dutch accounting principles.

The default reserve balance for bonds and other fixed rate securities and private placements at January 1, 2003 was EUR 281 million. It was increased in 2003 by a charge to the income statement of EUR 406 million and reduced by default losses on specific assets of EUR 443 million. Other movements, mainly resulting from foreign exchange rate changes, amounted to minus EUR 50 million. At December 31, 2003 the balance was EUR 194 million.

*Impact on Future Earnings*

There are a number of significant risks and uncertainties inherent in the process of monitoring impairments and determining if an impairment exists. These risks and uncertainties include:

the risk that our assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;

the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated; and

the risk that new information obtained by us or changes in other facts and circumstances lead us to change our intent to hold the security to maturity or until it recovers in value.

Any of these situations could result in a charge against earnings in a future period to the extent of the impairment charge recorded.

*Unrealized Bond Gains and Losses by Investment Type*

The carrying value and fair value of bonds and other fixed rate securities and private placements are as follows at December 31, 2003:

	Carrying Value	Unrealized Gains	Unrealized Losses	Market Value
<b>in million EUR</b>				
US government	2,945	38	(25)	2,958
Dutch government	996	43	(1)	1,038
Other government	7,432	375	(55)	7,752
Mortgage backed securities	18,392	390	(363)	18,419
Corporate bonds and private placements	60,521	3,620	(299)	63,842
<b>Total</b>	<b>90,286</b>	<b>4,466</b>	<b>(743)</b>	<b>94,009</b>



of which held by AEGON USA	74,760	3,888	(649)	77,999
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The composition by industry categories of bonds and other fixed rate securities and private placements in an unrealized loss position at December 31 is presented in the table below.

	Carrying Value of		Gross Unrealized	
	Securities with		Losses	
	Gross Unrealized	Losses		
	2003	2002	2003	2002
in million EUR				
Asset Backed Securities:				
Aircraft	289	432	(112)	(107)
CBOs	580	1,036	(49)	(159)
Housing Related	1,802	3,331	(45)	(180)
Credit Card	384	1,318	(10)	(122)
CMBS	2,079	1,052	(39)	(45)
Consumer Cyclical	807	642	(29)	(87)
Consumer Non-Cyclical	1,419	895	(40)	(102)
Electric, Energy & Natural Gas	1,933	2,154	(78)	(552)
Financials	3,768	2,197	(106)	(218)
Industries	3,098	2,220	(108)	(290)
Other	5,512	4,492	(127)	(290)
Total	21,671	19,769	(743)	(2,152)
of which held by AEGON USA	18,867	18,407	(649)	(1,976)

The following tables exclude money market investments with a carrying value of USD 1,966 million as they are carried at market value. The tables are presented in millions of US dollars and represent the composition by investment type of all Bonds, other fixed rate securities and private placements in an unrealized gain and loss status held by AEGON USA at December 31, 2003. The information is presented for AEGON USA since it represents 87% of the gross unrealized losses. The following information has been prepared according to DAP.

	DAP basis		Net	Carrying		Carrying	
			Unrealized	Value	of Securities	Value of Securities	Gross
	Carrying	Market		with Gross	Gross	with Gross	Unrealized
	Value	Value	Gains	Unrealized	Unrealized	Unrealized	Unrealized
			(Losses)	Gains	Gains	Losses	Losses

Total Bonds, Preferred Stock  
and Other loans

**Table of Contents***Unrealized Bond Losses by Sector*

The composition by industry categories of bonds and other fixed rate securities and private placements in an unrealized loss position held by AEGON USA at December 31, 2003 is presented in the table below. The following unrealized losses consist of 891 issuers.

<b>Sector</b>	<b>Carrying Value of Securities with Gross Unrealized Losses</b>	<b>Gross Unrealized Losses</b>
		<b>in million USD</b>
Asset Backed Securities:		
Aircraft	365	(142)
CBOs	675	(60)
Housing Related	2,195	(52)
Credit Card	481	(13)
CMBS	1,823	(42)
Consumer Cyclical	1,011	(36)
Consumer Non-Cyclical	1,777	(51)
Electric, Energy & Natural Gas	2,420	(98)
Financials	3,640	(110)
Industries	750	(28)
Transportation	534	(26)
Other	8,158	(162)
<b>Total</b>	<b>23,829</b>	<b>(820)</b>

The information presented above is subject to rapidly changing conditions. As such, AEGON expects that the level of securities with overall unrealized losses will fluctuate. The recent volatility of financial market conditions may continue to result in increased recognition of both investment gains and losses. As of December 31, 2003, there are USD 4.9 billion of gross unrealized gains and USD 0.8 billion of gross unrealized losses in the Bonds and other fixed rate securities and Private placements portfolio.

The largest single issuer in an unrealized loss position is USD 36 million and relates to a beneficial interest in a diversified portfolio of pooled aircrafts. Gross unrealized losses of USD 440 million, or 54% of all gross unrealized losses, are concentrated in the asset backed securities (aircraft, CBOs, housing-related and credit cards), electric, energy and natural gas and banking industries.

**Asset Backed Securities (ABS)**

Aircraft-related ABS notes are primarily collateralized by the long-term revenue stream generated from leasing a diversified pool of commercial aircraft to a diversified group of aircraft operators around the world. These pools are typically financed with first priority senior debt, second priority mezzanine debt, third priority junior debt and equity. Approximately 63% of AEGON USA's portfolio is first priority senior debt and 37% is second priority mezzanine debt, all rated investment grade at time of purchase, approximately 69% of the portfolio is currently rated investment grade. AEGON USA holds no debt securities that are in a junior debt or equity position. The weak commercial aircraft environment, in part originated by the events of September 11, 2001, has caused lease rates to decline. This has put pressure on the cash flows within these

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trusts. Increased risk premiums associated with the current market, as well as a significant extension of the time period within which debt securities are expected to be repaid, have caused prices for many debt securities in this sector to decline. Although the current environment for aircraft leasing remains weak, there are signs that the downturn may be nearing an end and any future cyclical upturn in lease rates will benefit these debt securities over their very long maturity. AEGON USA evaluates each transaction quarterly using the most recent appraisals (and other outside relevant information) of the equipment, which are received from the servicer and completed by independent parties who have expertise in this field, as a proxy for expected cash flows. In cases where AEGON has not taken an impairment loss, these appraisals indicated full recovery of principal and interest at the expected yield.

AEGON USA currently holds three positions within this sector that are rated below investment grade and which have an unrealized loss position greater than USD 20 million, each of which is discussed below.

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AEGON owns USD 54 million in carrying value of Class B second priority mezzanine debt securities of Aircraft Finance Trust as of December 31, 2003. The debt securities represent a beneficial interest in a diversified portfolio of pooled aircraft leases. The rental proceeds from leasing the aircraft are used to pay interest and principal on the debt. There are two classes of debt securities that are subordinated to AEGON's holdings. The Class B debt remains current on principal and interest. However, the debt is in an unrealized loss position of USD 32 million, because continued stress in the global aviation market and reduced aircraft values have put pressure on lease renewal rates. The debt has been in an unrealized loss position for more than 24 months. AEGON believes the Class B debt is expected to receive full principal and interest at the expected yield and therefore has not taken an impairment. This debt security is not a traded security and therefore the market bids received are heavily discounted due to long duration as well as the uniqueness and illiquidity of the structure. AEGON has the intent and ability to hold these debt securities until recovery or maturity.

AEGON owns USD 43 million in carrying value of Class B second priority mezzanine debt securities of Airplanes Pass Through Trust as of December 31, 2003. The debt securities represent a beneficial interest in a diversified portfolio of pooled aircraft leases. The rental proceeds from leasing the aircraft are used to pay interest and principal on the debt. There are two classes of debt securities that are subordinated to AEGON's holdings. In December of 2003, cash flows which would have been available to pay interest on the Class B debt securities were redirected pursuant to the terms of the indenture to pay principal on first priority Class A debt securities. Based on this event, AEGON USA recognized an impairment to the book value of USD 14 million. The impairment was based on management's best estimate of the future recoverable value discounted at the original expected yield. Although interest will continue to accrue on this amount at the stated coupon rate, AEGON USA expects that interest payments will not be paid over the intermediate term. This debt security is not a traded security and therefore the market bids received are heavily discounted due to the long duration as well as the uniqueness and illiquidity. At year-end, the debt was in an unrealized loss position of USD 28 million. The debt has been in an unrealized loss position for more than 24 months. AEGON expects to collect the current carrying value and has the intent and ability to hold these debt securities until recovery or maturity.

AEGON owns USD 53 million in carrying value of Class A first priority senior debt securities of Pegasus Aviation Lease Securitization Trust as of December 31, 2003. The debt securities represent a beneficial interest in a diversified portfolio of pooled aircraft leases. The rental proceeds from leasing the aircraft are used to pay interest and principal on the debt. There are four classes of debt securities that are subordinated to AEGON's holdings. The Class A debt remains current on principal and interest; however, the security is in an unrealized loss position of USD 26 million. The debt has been in an unrealized loss position for more than 24 months. Projections of future lease payments were completed to determine the value of each plane. AEGON USA evaluates each transaction quarterly using the most recent appraisals (and other outside relevant information) of the equipment, which are received from the servicer and completed by independent parties who have expertise in this field, as a proxy for expected cash flows. AEGON has not taken an impairment on these debt securities because, based on modeled projections, the Class A debt securities are expected to receive full principal and interest at the expected yield. This security is not a traded security and therefore the market bids received are heavily discounted due to the long duration as well as the uniqueness and illiquidity. AEGON has the intent and ability to hold these debt securities until recovery or maturity.

Collateralized Bond and Loan Obligations (CBOs) are collateralized by a diversified pool of assets, most typically corporate bonds or loans. The pool is typically financed by first priority senior debt, second priority mezzanine debt, third priority subordinated debt and equity. AEGON USA's portfolio consists of 65% first priority senior classes and 34% second priority mezzanine classes, all of which were rated investment grade at the time of purchase. Increased defaults in the corporate bond market over the past several years caused a significant increase in CBO bonds being downgraded by the rating agencies and negatively impacted liquidity for such bonds. The improved economic outlook and reduced default rates have led to an increase in liquidity in the sector as well as a better than expected performance in many CBO structures. This has resulted in a reduction in AEGON's unrealized loss position throughout the last half of 2003.

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There are currently no positions within this sector that have an unrealized loss position greater than USD 20 million.

Housing-related ABS notes are collateralized by diversified pools of first and second-lien residential mortgage loans and are generally secured by 1-4 family residential housing properties or manufactured homes. Approximately 83% of AEGON USA's housing-related ABS portfolio is backed by 1-4 family residential properties and 17% is backed by manufactured housing properties. The manufactured housing sector has and continues to experience significant weakness as a result of poor underwriting practices in the late 1990s, which have resulted in higher than expected defaults and losses on the underlying collateral. This has resulted in a number of lenders to the industry pulling out of the sector or filing bankruptcy. These lenders have also increased their use of wholesale channels to liquidate repossessed collateral, thus causing recovery rates to fall at a time when defaults are rising. These events have caused risk premiums for manufactured housing notes and rating downgrades to rise to unprecedented levels.

Housing-related ABS transactions are evaluated by modeling the expected cash flows assuming various scenarios for defaults and recoveries on the underlying collateral as well as including actual experience to date. In cases where AEGON has not taken an impairment loss, these models indicate full recovery of principal and interest at the expected yield.

There are currently no positions within this sector that have an unrealized loss position greater than USD 20 million.

Credit Card ABS notes are primarily collateralized by diversified pools of unsecured Mastercard/Visa revolving loans from banking institutions to consumers. The pool of assets is typically financed by first priority senior debt, second priority mezzanine debt, third priority subordinated debt and equity. Approximately 31% of the portfolio is senior debt, 30% is mezzanine debt, and 39% is subordinated debt, all rated investment grade at time of purchase. Of the subordinated debt, approximately 98% is secured by loans provided to borrowers from investment grade banking institutions. Due to the weak economy and increased regulatory pressure on sub-prime lenders, debt backed by loans to subprime borrowers have come under pressure and suffer from weak liquidity. These events have caused risk premiums for subprime credit card debt and rating downgrades to rise. Throughout the second half of 2003, market conditions for distressed credit card debt improved and some liquidity has returned to the sector. The result of this has been a reduction in AEGON USA's unrealized loss position.

Credit Card ABS transactions are evaluated by modeling the expected cash flows assuming various scenarios for defaults and recoveries on the underlying collateral as well as including actual experience to date. In cases where AEGON has not taken an impairment loss, these models indicate full recovery of principal and interest at the expected yield.

There are currently no positions within this sector that have an unrealized loss position greater than USD 20 million.

### **Electric, Energy & Natural Gas (Utilities)**

The utility sector has faced a number of significant challenges in recent years including the California energy crisis, bankruptcies, and the rapid financial deterioration of several leading companies in the merchant energy industry. Noteholders are experiencing extreme volatility as the increased financial and business risk associated with non-regulated activities has led to a substantial number of ratings downgrades. During 2003, most companies have been successful in accessing the capital markets to refinance near-term debt maturities, thus reducing a significant amount of refinancing risk. Examples of such companies include: AES Corp, Aquila, Calpine, CenterPoint Energy, Dynegy, Reliant Resources and Williams Companies. The extension of credit has provided much needed time to these issuers as they work through the process of improving

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liquidity, reducing overall leverage, and strategically re-focusing on core, asset-based businesses. AEGON believes there will be continued volatility in debt values as companies work through their individual restructuring plans. On the other hand, companies with solid regulated operations (either electric or natural gas) have exhibited much less volatility due to the protection afforded by state and/or federal regulation. Impairment losses have been taken on those companies in this sector that have not demonstrated the ability to be successful in bridging liquidity needs.



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There is one issuer rated below investment grade in this sector that has an unrealized loss position greater than USD 20 million and it is discussed below.

AEGON owns USD 94 million in carrying value of debt securities of direct and indirect subsidiaries of PG&E Corporation (PG&E). National Energy Gas & Transmission (NEGT, previously known as PG&E National Energy Group, Inc. or NEG) is a wholly owned power generation and gas transmission subsidiary of PG&E. NEG filed for protection under Chapter 11 of the U.S. Bankruptcy Code on July 8, 2003. AEGON's exposure in an unrealized loss position comprises holdings at USGen New England, a subsidiary of NEG that filed simultaneously and is undergoing a separate restructuring, and two private placement financings of generation projects where NEG is the contractual counter-party. USGen New England debt securities have been impaired to their expected recovery levels and are in an unrealized loss position of USD 2 million. The private placement financings of generation projects are in an unrealized loss position of USD 25 million. The debt has been in an unrealized loss position between 12 and 18 months. These debt securities are secured transactions where the asset values and/or deficiency claims are currently expected to support full recoveries. AEGON has the intent and ability to hold these debt securities until recovery or maturity.

**Banking**

The fundamentals of the banking sector have held up well in the recent challenging economic environment. It is a high credit quality sector and represents a large portion of the corporate debt market. As a result, AEGON USA's absolute exposure is large and the absolute dollar amount of unrealized losses is also large, but the unrealized position as a percent of book value on securities is relatively low.

There are currently no positions within this sector that have unrealized loss positions greater than USD 20 million.

*Unrealized Bond Loss by Maturity*

The following table provides the composition by maturity of all bonds, other fixed income securities and private placements in an unrealized loss position held by AEGON USA at December 31, 2003.

<i><b>Maturity Level</b></i>	<b>Carrying Value of Securities With Gross Unrealized Losses</b>	<b>Gross Unrealized Losses</b>
		<b>in million USD</b>
One year or less	316	(5)
Over 1 thru 5 years	4,861	(89)
Over 5 thru 10 years	9,495	(250)
Over 10 years	9,157	(476)
<b>Total</b>	<b>23,829</b>	<b>(820)</b>

*Unrealized Bond Loss by Credit Quality*

The following table provides the composition by credit quality of all bonds, other fixed income securities and private placements in an unrealized loss position held by AEGON USA at December 31, 2003.

<u>Credit Quality</u>	<u>Carrying Value of Securities With Gross Unrealized Losses</u>	<u>Gross Unrealized Losses</u>
		<b>in million USD</b>
Treasury Agency	2,413	(33)
AAA	4,965	(102)
AA	2,180	(66)
A	6,470	(172)
BBB	5,378	(302)
BB and Below	2,423	(145)
Total	23,829	(820)

**Table of Contents***Unrealized Bond Loss Aging*

The following table provides the length of time a security has been below cost and the respective unrealized loss at year-end.

<b>Time Period</b>	<b>Investment Grade</b>	<b>Below Investment Grade</b>	<b>Investment Grade</b>	<b>Below Investment Grade</b>
	<b>Carrying Value</b>	<b>Carrying Value</b>	<b>Unrealized Loss</b>	<b>Unrealized Loss</b>
				<b>in million USD</b>
0-6 months	13,675	581	(223)	(16)
> 6 to 12 months	3,919	243	(156)	(10)
> 12 months	3,812	1,599	(296)	(119)
<b>Total</b>	<b>21,406</b>	<b>2,423</b>	<b>(675)</b>	<b>(145)</b>

The following table provides the length of time a below investment grade security has been in an unrealized loss position and the percentage of carrying value to amortized cost as of December 31, 2003.

<b>Time Period</b>	<b>Below Investment Grade</b>	<b>Below Investment Grade</b>
	<b>Carrying Value</b>	<b>Unrealized Loss</b>
		<b>in million USD</b>
<b>0-6 months:</b>		
CV < 100% > 70% of amortized cost	568	(13)
CV <= 70% > 40% of amortized cost	13	(3)
CV < 40% of amortized cost	0	(0)
Subtotal	581	(16)
<b>&gt;6 to 12 months:</b>		
CV < 100% > 70% of amortized cost	243	(10)
CV <= 70% > 40% of amortized cost	0	(0)
CV < 40% of amortized cost	0	(0)
Subtotal	243	(10)
<b>&gt;12 to 24 months:</b>		
CV < 100% > 70% of amortized cost	419	(18)
CV <= 70% > 40% of amortized cost	45	(8)
CV < 40% of amortized cost	0	(0)
Subtotal	464	(26)
<b>&gt; 24 months:</b>		
CV < 100% > 70% of amortized cost	944	(43)
CV <= 70% > 40% of amortized cost	163	(39)
CV < 40% of amortized cost	28	(11)
Subtotal	1,135	(93)
<b>Total</b>	<b>2,423</b>	<b>(145)</b>

*Realized Bond Gains and Losses*

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The following table provides the realized gains and losses on bonds, other fixed income securities and private placements of AEGON USA for the year ended December 31, 2003.

	<b>Gross Realized</b>	<b>Gross Realized</b>
	<b>Gains</b>	<b>Losses</b>
		<b>in million USD</b>
Total bonds, other fixed income securities and private placements	1,560	(985)

The gross realized losses include USD 497 million of bond default losses, which have been charged against the default reserve. The USD 1,560 million of gross realized gains and USD 488 million of gross realized losses related to assets not considered default losses have been deferred for reporting in accordance with DAP and will be amortized into income over the estimated average remaining maturity term of the investments sold.

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The following table provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired at December 31, 2003.

<u>Time Period</u>	<u>0-6 months</u>	<u>&gt;6 to 12 months</u>	<u>&gt;12 months</u>	<u>Total</u>
	<b>in million USD</b>			
Bonds, other fixed income securities and private placements	(342)	(54)	(92)	(488)

Losses were realized on US Government Securities of USD 126 million. These losses are attributable purely to interest rate movements and the timing of when securities were bought and sold. These were the only securities that represented more than 5% of the USD 488 million of realized losses on sales of fixed maturity securities.

*Bond Default Losses*

The fixed maturity securities to which these realized bond impairment losses apply were generally of investment grade quality at the time of purchase, but were subsequently downgraded by rating agencies to below-investment grade. Based upon consideration of all available information certain fixed maturity securities were deemed to be impaired and accordingly they were written down to management's best estimate of their future recoverable value. Credit losses of USD 323 million, or 65%, were concentrated in airlines (included in the transportation sector), electric, energy and natural gas, food and beverage (included in the consumer non-cyclical sector) and ABS industries.

The composition of AEGON USA's default losses by issuer, on a DAP basis, for the year-ended December 31, 2003, is presented in the following table.

<u>Issuer Name</u>	<u>Default Loss</u>
	<b>in million USD</b>
Parmalat SpA	(54)
TXU Europe Limited	(36)
United Airlines	(31)
American Airlines (AMR)	(29)
Enterprise Acceptance Corp	(28)
Continental Airlines	(17)
Air 2 US	(17)
Other (100 unique issuers)	(285)
<b>Total</b>	<b>(497)</b>

In 2003, a USD 54 million loss was realized in the fourth quarter on securities issued or guaranteed by Parmalat SpA. Parmalat SpA is the main operating subsidiary of Parmalat Finanziaria, an Italian company and one of the largest dairy concerns in the world with operations on six continents. Parmalat SpA accounts for approximately 75% of Parmalat Finanziaria's revenues. Parmalat SpA maintained an investment grade rating until December 2003, when it was discovered that Parmalat SpA's financials had been materially misstated due to an alleged massive fraud involving senior management, the accountants and legal advisors. In late December 2003, Parmalat SpA filed for bankruptcy. Due to the alleged massive fraud, there can be no reliance on Parmalat SpA's audited financial statements; therefore, AEGON impaired the book values to the

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quoted market prices. The debt securities were not in an unrealized loss position prior to December 2003.

In 2003, a USD 36 million loss was realized on debt securities issued by TXU Corporation's European subsidiary, TXU Europe Limited. USD 29 million and USD 7 million loss, respectively, was realized on the debt securities of Energy Group Overseas B.V. and TXU Eastern Funding Company. Of the total realized loss, USD 5 million relates to debt securities in an unrealized loss position for less than 6 months, USD 5 million between 6 and 12 months and USD 26 million for greater than 12 months. TXU Europe Limited is the European energy generation and trading business of US-based TXU Corporation. Credit support from TXU Corporation had

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allowed TXU Europe Limited to hold investment grade ratings until the fourth quarter of 2002 despite continued weakness in UK power markets. In October 2002, TXU Corporation withdrew its support and TXU Europe Limited and its subsidiaries were downgraded to below investment grade ratings shortly thereafter. In November 2002 TXU Europe Limited filed for administration in the UK following an unsuccessful attempt to strike an out of court settlement. TXU Europe Limited is now in the hands of UK administrators overseeing its liquidation. The legal entities, which issued the Energy Group Overseas B.V. and TXU Eastern Funding Company bonds, are both parties to this administration process. An initial impairment was taken in the debt securities in the fourth quarter of 2002. Since that time the value of the securities declined further. Continued reviews of available information led to the conclusion they were further impaired and warranted additional write-downs. At December 31, 2003, the market values of the securities were above the carrying value for the Energy Group Overseas B.V. and TXU Eastern Funding Company positions.

In 2003, a USD 31 million loss was realized on debt securities associated with United Airlines Inc. (UAL). Of the total realized loss, USD 24 million was in an unrealized loss position between 12 and 18 months and USD 7 million greater 18 months before the impairment occurred. The airline industry initially encountered difficulty primarily due to the terrorist attacks that occurred on September 11, 2001, after which the various secured debt of UAL was downgraded in stages as the prospects of a bankruptcy filing increased. UAL ultimately filed for protection under Chapter 11 of the U.S. Bankruptcy Code on December 9, 2002, and by this time all of the secured debt held was rated below investment grade. Secured aircraft financings are of two types: Equipment Trust Certificates (ETC) and Enhanced Equipment Trust Certificates (EETC). The ETC initially have an 80% loan-to-value ratio and the EETC senior tranches initially have a 40-50% loan-to-value ratio and include a provision for a third party to pay interest for eighteen months after default. An initial impairment was taken in the fourth quarter 2002 on the unsecured debt and ETCs. The revenue and cash flow environment for the airline industry deteriorated further in early 2003 from the combined impact of escalating fuel costs and the start of the Iraq War. During 2003, additional impairments were taken on the subordinated tranches of the EETCs due to declining aircraft valuations and the heightened risk of aircraft rejection in bankruptcy.

In 2003, a USD 29 million loss was realized on the debt securities of American Air Co. Inc. (AMR). Of the total realized loss, USD 3 million was in an unrealized loss position of less than 6 months, USD 2 million between 6 and 12 months and USD 24 million greater than 12 months before the impairment occurred. The airline industry initially encountered difficulty primarily due to the terrorist attacks that occurred on September 11, 2001. AEGON did not take an impairment on these debt securities at that time because, based on AMR's cash and unencumbered assets, AEGON believed AMR's liquidity should be sufficient in the near-term if there were no major events adversely impacting the airline sector. During 2003, an impairment was taken because the revenue and cash flow environment for the airline industry deteriorated further in early 2003 from the combined impact of escalating fuel costs, the start of the Iraq War, and a continued high cost structure. Subsequent to the impairment, AMR successfully negotiated over USD 2 billion in annual cost savings, which will improve cash flow significantly and increase the likelihood that the airline will avoid bankruptcy.

In 2003, a USD 28 million loss was realized on the debt securities of Enterprise Mortgage Acceptance Company, LLC (EMAC). Of the total realized loss, USD 11 million was in an unrealized loss position between 12 and 18 months and USD 17 million for greater than 18 months before the impairment occurred. EMAC is an issuer of securitized franchise loan pools. AEGON owns debt securities from two EMAC pools that have experienced significant declines in performance. AEGON did not take an impairment on these debt securities earlier because they are secured by a portfolio of franchise loans that AEGON believed was capable of meeting scheduled principal and interest payments. In 2003, an impairment was taken because the trustee began to aggressively foreclose on, and liquidate, loans within the two pools. The recovery rates were much lower than expected. This resulted in pool cash flows being insufficient to cover interest payments on the debt securities.

In 2003, a USD 17 million loss was realized during the first quarter on the sale of EETCs issued by Continental Airlines, Inc. (Continental Airlines). The debt securities were in an unrealized loss position between 12 and 18 months before the sales occurred. AEGON sold the securities to reduce its exposure to the airline. At the time of sale, the securities had an investment grade rating. The sales were executed in early 2003, a time when the revenue and cash flow environment for the airline industry was showing significant deterioration from the combined impact of escalating fuel costs, the start of the Iraq war, and a continued high cost structure.

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In 2003, a USD 17 million loss was realized on debt securities related to Air 2 US. The debt securities were in an unrealized loss position between 12 and 18 months before the impairment occurred. Air 2 US is a bankruptcy-remote special purpose entity. The deal is secured by subleases on aircraft leased to UAL (50% of original transaction) and AMR (50% of original transaction). The security was downgraded to below investment grade in July 2002. After taking into account the impact from the UAL bankruptcy on December 9, 2002, the transaction continued to have sufficient cash flow to service the B tranche held by AEGON; therefore, no impairment was taken at that time. In first quarter 2003, an impairment was taken when it appeared AMR would likely file for bankruptcy. Subsequent to the impairment, AMR successfully negotiated over USD 2 billion in annual cost savings, which will improve cash flow significantly and which increases the likelihood that the airline will avoid bankruptcy and that this position will meet payments as scheduled.

### ***iv. Indirect return method***

AEGON accounts for capital gains and losses on investments in shares and real estate by applying the indirect return method. In the income statement the structural total return on investments in real estate and shares is recognized. The total return includes the direct income (rents and dividends) during the reporting period and an amount of indirect income (capital gains and losses). Under AEGON's accounting policy, unrealized and realized capital gains and losses are recognized in a revaluation reserve (a component of shareholders' equity), which is carried on the balance sheet and does not flow directly through the income statement. Unrealized gains and losses on shares and real estate investments are due to changes in stock exchange quotations (if unquoted then at estimated market value) and reappraisal of real estate (at least every five years). The total return on equity investments for a given period is calculated by determining the average of the total historic return yield over the last 30 years and multiplying this average yield by the average value of these investments over the last seven years, adjusted for investment purchases and sales. The indirect income from these investments is then calculated as the difference between the total return and the direct income actually earned in the period. The indirect income is released from the revaluation reserve to the income statement, provided the balance of this account remains positive. In addition, AEGON is required by Dutch law to maintain a minimum reserve. This minimum reserve consists of the unrealized difference between the market value and the cost price of real estate and shares. The revaluation account balance at December 31, 2003 was EUR 2,674 million, consisting of realized gains of EUR 1,281 million and unrealized gains of EUR 1,393 million. The indirect income (before tax) included in investment income in 2003 was EUR 631 million and in 2002 EUR 758 million.

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

	<b><u>Indirect income</u></b>	<b><u>Realized capital gains/(losses)</u></b>
Amounts in EUR million		
2003	631	(270)
2002	758	(1,343)
2001	723	(507)

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



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***v. Pension expense***

We have defined benefit plans and defined contributions plans covering substantially all of our employees. In a number of countries, including the Netherlands, retirement benefits are insured with our life insurance companies based on the appropriate actuarial formulas and assumptions. In Other Countries, the provisions for pensions are vested in separate legal entities that are not a part of AEGON.

In the Netherlands employees participate in a defined benefit scheme based on average salary and, for the part of salaries exceeding a certain level, employees may opt for a defined contribution scheme. Indexation of vested rights are fully funded yearly and immediately charged to the income statements.

In the United Kingdom benefits are based on past and future service, taking into account future salary and benefit levels as well as estimated inflation in future years. Regular improvements of benefits are allocated to future service years.

In the Other Countries pension costs are fully charged to the income statements in the years in which they are earned by the employees.

US GAAP SFAS 87 is applied to our United States pension plans. SFAS 87 calculations require several assumptions, including future performance of financial markets, future composition of the work force and best estimates of long-term actuarial assumptions. The expected return on plan assets is calculated using a five-year moving average for the plan assets. In a period of market decline, such as recently experienced, this moving average is higher than the fair value of the assets. 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 assumptions are reviewed on an annual basis and changes are made for the following year, if required.

In the United States, the present over-funding of the pension plans and the related interest benefit on pension plan assets caused pension expense to be a credit.

For 2003, AEGON USA has lowered the expected long-term rate of return assumption on pension plan assets from 9.0% to 8.25%. In 2003, the discount rate was lowered from 6.75% to 6.25%. AEGON USA pension benefit credit was USD 90 million lower in 2003 than in 2002 as a result of these assumption changes and the decline in the moving average of the plan assets. Unless there is a significant recovery in the equity markets in the next few years, the pension benefit credit is expected to continue to decline until the fair value of the plan assets equals or exceeds the moving average.

Pension plan contributions are not required for AEGON USA in 2003, but are required for the defined benefit plans of AEGON The Netherlands and AEGON UK.



**Table of Contents****5.4 Results of Operations 2003 compared to 2002****i. Highlights**

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

	<u>Americas</u>	<u>The Netherlands</u>	<u>United Kingdom</u>	<u>Other countries</u>	<u>Total</u>
	<u>in million EUR</u>				
<b>2003</b>					
Total life insurance gross premiums	6,157	3,247	5,974	831	16,209
Accident and health insurance premiums	2,217	163		83	2,463
General insurance premiums		459		337	796
Total gross premiums	8,374	3,869	5,974	1,251	19,468
Investment income insurance activities	5,618	1,465	137	132	7,352
Fees and commissions	854	265	90	12	1,221
Income from banking activities		354			354
Total revenues business units	14,846	5,953	6,201	1,395	28,395

Income from other activities					34
Total revenues					28,429
Number of employees, including agents employees	14,308	6,034	4,864	2,502	27,708

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Net income for 2003 of EUR 1,793 million increased 16% compared to EUR 1,547 million in 2002. The largest influences on the full year were improved equity and credit markets as well as improved administrative operating efficiencies.

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

Earnings per share for 2003 amounted to EUR 1.15, an increase of 11% compared to EUR 1.04 for 2002 (adjusted for the 2002 stock dividend).

Standardized new life production for 2003 increased by 3% to EUR 2,545 million, which at constant currency exchange rates would have increased by 15%. The increase in standardized life production was driven by higher production in the Americas, the United Kingdom and Other countries, in particular in Taiwan, partly offset by lower production in the Netherlands.

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

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

Corporation tax was EUR 219 million higher in 2003 as the effective tax rate increased.

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

The fiscal or other policies adopted by the US, Dutch or UK government or the European Union can affect our business outlook and earnings. We cannot predict the impact or nature of these future changes in policy.

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

The principles of our strategy and objectives are clear. AEGON will continue to focus on life and pension products in both our existing and selected new markets. We are committed to a decentralized structure that provides substantial autonomy for local operations, enabling all our

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businesses to organize themselves around the demands of their customers. Our objective is to seek a leading position in each of our chosen markets to generate benefits of scale, combined with profitable and sustainable growth.

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

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

The following selected financial data should be read in conjunction with our consolidated financial statements and the related notes to the financial statements in Item 18 of this Annual Report. Our discussion of our full year results for 2003 includes comparative information presented in USD for our results in the Americas and in GBP for our results in the United Kingdom, which management believes is useful to investors because those businesses operate and are managed primarily in those currencies.

**Table of Contents***ii. Americas (includes AEGON USA and AEGON Canada)*

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

*Income before tax*

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

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

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

GICs and funding agreements income before tax declined 6% to USD 241 million, due to lower indirect investment income (lower by USD 29 million) and interest rate spread compression. Lower additions to the default provision resulted from the improved credit environment and partially offset the earnings decline. GICs and funding agreements account balances increased 5% to USD 27 billion and reflect higher sales of international funding agreements.



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

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

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AEGON maintained its long-term equity growth assumptions at 9% in the United States and 9.5% in Canada. As equity markets do not move in a systematic manner, assumptions are made as to the long-term growth rate after considering the net effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). Due to strong equity market growth during 2003 the future equity return assumptions used in the reversion to the mean methodology were lowered. In the United States, the forward looking equity return assumption from December 31, 2003 is 7.5% (before fees) for five years followed by 9% long-term and is related to account balances of USD 30.6 billion. In Canada, the comparable assumption is 10.75% for five years, followed by 9.5% long-term, which reflects the relatively weak recent performance of the Canadian segregated fund returns compared to average US-based returns. The comparable 2002 assumptions for the United States were 12% for five years and 9% for the long-term and for Canada were 12.5% for five years and 9.5% for the long-term. Account balances in Canada are USD 2.9 billion. These assumptions were used in determining reserves for guaranteed benefits on variable annuities in addition to DPAC amortization for both variable annuity and life for the account of policyholders product lines.

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

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

### *Net income*

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

### *Revenues*

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

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

Life for account of policyholders single premiums of USD 522 million were down 34% primarily due to the low sales of Bank Owned Life Insurance (BOLI) and Corporate Owned Life Insurance (COLI) business in 2003. These sales usually occur in larger amounts and contract sales are not as regular as other life products. In the continuing current low interest rate environment product pricing has been under pressure, which

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contributed to the declining sales. Life for account of policyholders recurring premiums of USD 779 million were up 23%, largely driven by renewal premiums of BOLI/COLI cases and also higher fees due to increases in account balances.

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

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

Fees and commission revenues of USD 966 million increased 16% compared to 2002. A non-recurring gain of USD 90 million was realized on real estate investments through the combination of an insurance settlement (USD 54 million) and a release of a provision (USD 36 million). The remaining increase in fees and commission revenues is primarily attributable to increased investment management fees earned as a result of higher asset balances.

### *Commissions and expenses*

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

### *Production*

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

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

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Variable annuity deposits of USD 6.4 billion decreased 36% compared to 2002. The decrease is largely due to the discontinuance of the guaranteed minimum income benefit (GMIB) feature. A new product with enhanced death and living benefit guarantees, which utilizes an active portfolio reallocation strategy, was introduced in late 2003 in an effort to replace sales lost due to the discontinuance of the GMIB feature.

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

**iii. The Netherlands**

	2003	2002	%
	—	—	—
	in million EUR		
<b>Income by product segment</b>			
Traditional life	548	552	(1)
Life for account of policyholders	135	49	176
Fee business	13	0	
	—	—	—
Life insurance	696	601	16
Accident and health insurance	44	26	69
General insurance	11	24	(54)
	—	—	—
Total insurance activities	751	651	15
Banking activities	20	8	150
	—	—	—
Income before tax	771	659	17
Corporation tax	(179)	(136)	32
	—	—	—
<b>Net income</b>	<b>592</b>	<b>523</b>	<b>13</b>

*Income before tax*

Income before tax for traditional life of EUR 548 million was 1% below 2002. Results were positively influenced by EUR 20 million of higher direct investment income, as well as EUR 47 million of higher indirect income and a EUR 40 million release of a provision for profit sharing. The lower results were mainly due to a change in the assumptions for mortality and longevity, which had a negative impact of EUR 93 million. Furthermore, lower expense loadings (EUR 20 million), due to lower production and higher expenses due to increased employee pension related costs, had a negative impact on income before tax. Commissions and expenses include, both in 2002 and 2003, accelerated amortization of DPAC due to high lapse rates resulting from a change in the law relating to tax driven savings products.

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

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

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

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

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

*Net income*

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

*Revenues*

Revenues of EUR 5,953 million recorded in 2003 were slightly lower than in 2002. Premium income in life insurance business was EUR 326 million lower, mainly because single premiums decreased by 24% from 2002. This was due to a lower level of business in group pensions. Recurring premiums remained relatively stable, with higher premiums from the existing portfolio but also higher lapses of policies due to a change in law affecting tax driven savings products. Premium income in the accident and health and general insurance business showed increases of 1% and 3% respectively from 2002. This was due to the increase in premiums for a broad range of non-life products, as realized at the end of 2002 to cover increasing claims. This increase is partly offset by the effect from the sale of the glasshouse- and a part of the recreational boating portfolio, which has a negative effect on premium income of EUR 5 million. Investment income rose by EUR 68 million, mainly from the increase in indirect income. Fees and commissions include EUR 214 million of revenues relating to the distribution units and EUR 21 million of revenues relating to TKP Pensioen. Revenues out of banking activities decreased by EUR 62 million or 15% over 2002 to EUR 354 million, mainly caused by lower investments backing the savings accounts.

*Commissions and expenses*

Commissions and expenses amounted to EUR 956 million, a 44% increase from 2002. Expenses increased by EUR 202 million due to the consolidation of the distribution units; EUR 14 million, reflecting the acquisition of TKP Pensioen and EUR 64 million from higher premiums related to the AEGON The Netherlands pension scheme. Commissions were higher due to a shift in the individual life business from recurring to single premiums.

*Production*

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

For non-life, net production (new production adjusted for lapses) was slightly negative. This was caused by the divestiture of the glasshouse portfolio and part of the recreational boating portfolio. A change in the contracts to include a terrorism clause in the third quarter of 2003 led to



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lapses, but also to new policies, with a small positive impact overall. Change in legislation regarding absence due to illness policies may lead to a revival of the accident & health insurance market.

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

Security lease products were a high profile issue in the Netherlands in 2003. AEGON The Netherlands ceased selling security lease products completely in early 2003. This decision had a significant impact on production, with a decrease from EUR 393 million in 2002 to EUR 13 million in 2003. The existing portfolio is very diverse. Since most of AEGON The Netherlands' customers bought products with guarantees attached to them or with redemption schemes on a long duration, the effects of volatile equity markets on the short term are limited.

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AEGON has set up a provision for potential losses resulting from AEGON not being able to recover in full the loans granted in the context of security lease products.

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

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

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

**iv. United Kingdom**

	<u>2003</u>	<u>2002</u>	<u>%</u>	<u>2003</u>	<u>2002</u>	<u>%</u>
	<b>in million GBP</b>			<b>in million EUR</b>		
<b>Income by product segment</b>						
Traditional life	1	12	(92)	2	19	(89)
Life for account of policyholders	128	140	(9)	184	224	(18)
Fee business	1	(6)		2	(10)	
	<u>130</u>	<u>146</u>	<u>(11)</u>	<u>188</u>	<u>233</u>	<u>(19)</u>
Income before tax	130	146	(11)	188	233	(19)
Corporation tax	(37)	(34)	9	(53)	(55)	(4)
	<u>93</u>	<u>112</u>	<u>(17)</u>	<u>135</u>	<u>178</u>	<u>(24)</u>
<b>Net income</b>	<b>93</b>	<b>112</b>	<b>(17)</b>	<b>135</b>	<b>178</b>	<b>(24)</b>

*Income before tax*

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

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

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

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

### *Net income*

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

**Table of Contents***Revenues*

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

*Commission and Expenses*

Commission and expenses increased to GBP 442 million, up GBP 128 million due to the inclusion of operating costs of the acquired distribution companies (GBP 40 million), growth in protection businesses (GBP 20 million), the recommencement of contributions to the staff pension scheme (GBP 7 million), higher DPAC amortization (GBP 63 million) and increased amortization charges on IT project costs (GBP 24 million) and partly offset by lower restructuring charges (GBP 7 million) and expense reductions (GBP 18 million).

The restructuring charges resulted from a cost reduction review in 2002 and a broader review of all of AEGON UK's operations, which commenced in 2003 and will continue in 2004. The charges arose from the costs of redundancies and the provision for vacant property as a result of the rationalization of accommodation.

The increases in DPAC amortization and depreciation charges on IT projects above are largely offset by a change in the technical provision for unitized business.

*Production*

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

**v. Other Countries**

	<u>2003</u>	<u>2002</u>	<u>%</u>
	<b>in million EUR</b>		
<b>Income by product segment</b>			
Traditional life	28	27	4
Life for account of policyholders	(14)	(14)	0
Fee business	8	7	14
	<u>          </u>	<u>          </u>	
Life insurance	22	20	10
Accident and health insurance	7	6	17
General insurance	50	38	32

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Income before tax	79	64	23
Corporation tax	(21)	(12)	75
<b>Net income</b>	<b>58</b>	<b>52</b>	<b>12</b>

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

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

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

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### *Hungary*

**Income before tax.** ÁB-AEGON's income before tax of HUF 16.6 billion for 2003 showed a 16% increase compared to 2002. The increase came from life business with 15% growth and from the non-life business, which showed 20% growth. For both businesses, the main reasons for the increase are the premium income growth and cost efficiencies. Additionally, in non-life, the favorable claims payments were partially offset by a strengthening of technical provisions. The fee income from managed assets rose by 40% to HUF 2.8 billion, reflecting the increase in the pension fund portfolio and assets under management.

Premiums to reinsurers increased by more than 8% or HUF 0.1 billion. This increase was consistent with the development of premium income.

Claim payments increased by HUF 2.8 billion, mainly due to maturities of life policies in the run-off portfolio. Non-life claims developed favorably in 2003 and were HUF 0.5 billion lower than in 2002.

Commissions increased by HUF 1 billion, due to high pension fund and non-life sales.

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

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

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

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

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

### *Spain*

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

Pre-tax results in the life business generated income before tax of EUR 4 million, an increase of EUR 15 million compared to the loss of EUR 11 million in 2002. The main reason for the increase was the absence of the negative effects of the previous year. These negative effects were mainly caused by the losses of Moneymaxx because of low production resulting from the situation in the equity markets and accelerated amortization of DPAC.

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

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**Net Income.** Net income of EUR 24 million for 2003 reflects a growth of 167%. The effective tax rate increased from 25% in 2002 to 33% in 2003 due to this year's higher income whereas tax deductible items remained at the same level as in 2002.

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

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

Non-life premiums increased by 5% compared to 2002. In 2003, AEGON Spain has continued to concentrate on personal lines and small companies, while de-emphasizing certain high risk business lines. This was the case for the other general liability and marine, aviation and transport branches, which showed decreases in premium income from 2002 of 22% and 17% respectively.

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

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

**Production.** Life production on a standardized basis increased by 88%, primarily by involving the intermediaries network of Non-Life in the sale of Life products and the launch of a Group Life unit.

### *Taiwan*

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

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



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

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

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### *China*

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

## **vi. Non-consolidated Group Companies**

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

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

## **vii. Liquidity and Capital Resources**

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

### *Capital Adequacy*

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

### *Capital Base*

AEGON applies leverage tolerances to its capital base. The capital base reflects the capital employed in core activities and consists of shareholders' equity, capital securities and dated subordinated and senior debt. AEGON seeks to manage its capital base to comprise at least 70% shareholders' equity, between 5% and 15% capital securities, and a maximum of 25% dated subordinated and senior debt. At December 31, 2003, AEGON's leverage was within these prescribed tolerances: equity capital represented 71% of its total capital base, while senior and dated

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subordinated debt comprised 19% of its total capital base. Capital securities accounted for the remaining 10%. The ratio of shareholders' equity to total capital remains stable at approximately the same level as it was at year-end 2002.

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

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### *Shareholders' Equity*

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

### *Debt Funding and Liquidity*

AEGON's funding strategy continues to be based on assuring excellent access to international capital markets at low costs. As part of this strategy, AEGON aims to offer debt securities in amounts that are eligible for benchmark inclusion and supports maintenance of liquid secondary markets in these securities. This focus on the institutional fixed income investor base will continue to be supported by an active investor relations program to keep investors well informed 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 facilitate access to international and domestic money markets, when required. Additionally, AEGON utilizes a USD 300 million US Domestic Commercial Paper Program. AEGON maintains back-up credit facilities to support outstanding amounts under its Commercial Paper programs. Its committed credit facilities, provided by banks with strong credit quality, exceed USD 3 billion. AEGON also has additional credit lines.

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

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

In the second quarter of 2003, in line with its funding strategy, AEGON N.V. issued EUR 1 billion of five year fixed rate notes, USD 750 million of ten year fixed rate notes and USD 250 million of 2 year floating rate notes to refinance maturing long-term and short-term debt. At December 31, 2003 AEGON N.V. had EUR 1.8 billion outstanding under its Medium Term Note program and EUR 1.6 billion under its Commercial Paper programs.

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

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

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### **viii. Research and development, patents and licences, etc.**

Not applicable.

### **ix. Trend information**

See the discussion above under Results of Operations 2003 compared to 2002 .

### **x. Certain Effects of US GAAP**

Net income of EUR 1,531 million was reported for 2003 based on US GAAP, compared to a net loss of EUR 2,328 million for 2002. The US GAAP net income reflects the same financial statement impacts that were previously described on a Dutch accounting basis.

The most significant differences in 2003 between net income and shareholders' equity under US GAAP and DAP related to the treatment of realized capital gains and losses for both debt securities and investments in equity securities and real estate. See Item 18 - Note 18.5 of our consolidated financial statements of this Annual Report.

Net capital losses on shares and real estate realized on a US GAAP basis totaled EUR 125 million (including EUR 352 million other-than-temporary impairment write downs in 2003, compared to an amount of EUR 1,057 million in 2002) compared to indirect return income of EUR 631 million under Dutch accounting principles. Capital gains (losses) on shares and real estate are recognized when they are realized pursuant to US GAAP while the indirect return methodology is applied under Dutch accounting principles. See Application of Critical Accounting Policies Dutch Accounting Principles .

Capital gains and losses on bonds and private placements realized on a US GAAP basis less amortized gains under Dutch accounting principles totalled EUR 893 million (2002: 8 million). Under Dutch accounting principles gains and losses are deferred and amortized to the income statement over future periods. Under US GAAP these gains and losses, together with the annual amortization charge, are reported in the income statement when they are realized.

Goodwill impairment charges are recorded on a US GAAP basis while goodwill is charged to equity on a Dutch accounting basis at the time of acquisition. The required annual goodwill impairment test under SFAS 142 was performed in the fourth quarter of 2003 and resulted in an additional goodwill impairment charge of EUR 219 million primarily relating to the Transamerica non-insurance business (2002: EUR 1,965 million). Due to the sale of certain TFC business units, US GAAP required goodwill to be allocated between business units sold and those retained. A gain was recognized, as discussed previously, on the business units sold. The fair value of business units retained was not adequate to support the remaining goodwill requiring an impairment charge to be recorded. This impairment charge was reported as a 2003 US GAAP operating expense.

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Included in Balance of other items in 2003 was EUR 224 million from the sale of TFC's real estate tax service and flood certification business units. This gain was net of EUR 83 million of allocated goodwill. A gain of EUR 347 million was recorded directly to equity under Dutch accounting principles.

### 5.5 Application of Critical Accounting Policies – US GAAP

#### *Reserve for Guaranteed Minimum Benefits and Amortization of Deferred Policy Acquisition Cost, including Value of Business Acquired*

The application of these accounting policies is discussed in *Application of Critical Accounting Policies – Dutch Accounting Principles*. The primary difference in applying these accounting principles for US GAAP is that for the flexible premium insurance products and investment contracts in the Netherlands and the United Kingdom, an annual unlocking as described for the Americas is performed and the reserves in the United Kingdom are adjusted to equal the contract holder balance. The net impact of these elements in 2003 was an additional charge of EUR 73 million under US GAAP.

**Table of Contents***Impairment of debt securities*

US GAAP does not provide for a default reserve but rather requires all realized losses including impairments to be recognized in the income statement. The same monitoring practices and evaluation process as described in *Application of Critical Accounting Principles* Dutch Accounting Principles is followed. The practices described are those followed by AEGON USA, as 87% of the unrealized loss exposure is in the U.S. portfolio. For US GAAP purposes, however, an impaired debt security is written down to fair value, which is generally based on quoted market value if available, at the time impairment is determined to have occurred. Default losses on debt securities reported in net income were EUR 548 million on a US GAAP accounting basis compared to EUR 406 million under Dutch accounting principles.

If it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary-impairment (OTTI) shall be considered to have occurred. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss). Fair value is first based on quoted market prices in an active or less active market. If this approach is not applicable, the fair value is modeled by evaluating such factors as liquidity, capital structure issues, cash flow generating capability, and conservative expectations as to future results. The fair value also incorporates independent third party valuation analysis.

*Impairment of Equities*

AEGON applies the same monitoring practices and evaluation process for Dutch accounting principles (DAP) as for US GAAP purposes. However, any realized losses or impairments are under DAP transferred from the unrealized part of the revaluation account to the realized part of the revaluation account, whereas for US GAAP purposes they are reported in the income statement in the period they occur.

Some of the equity asset portfolios held by AEGON USA are designated as trading for US GAAP purposes. These investments are carried on the balance sheet at market value and the change in market value is reported in net income. These securities have been excluded from the tables and discussions in this section.

	<u>Cost price</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Market value</u>
<b>in million EUR</b>				
<b>Amounts at December 31, 2003</b>				
Total available for sale equity portfolio	4,133	777	(49)	4,861
of which held by AEGON USA and AEGON The Netherlands	3,919	769	(45)	4,643
<b>Amounts at December 31, 2002</b>				
Total available for sale equity portfolio	4,254	389	(313)	4,330
of which held by AEGON USA and AEGON The Netherlands	3,990	385	(280)	4,095



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

	Carrying Value of Securities with Gross		Gross	
	Unrealized Losses		Unrealized Losses	
			in million EUR	
	2003	2002	2003	2002
Communications	17	37	(1)	(5)
Consumer Cyclical	39	117	(3)	(13)
Consumer Non-Cyclical	77	800	(5)	(80)
Financials	205	459	(7)	(45)
Funds	160	161	(14)	(37)
Industries	63	120	(4)	(20)
Resources	1	74	(0)	(15)
Services Cyclical	94	257	(4)	(47)
Services Non-Cyclical	21	126	(2)	(24)
Technology	14	73	(1)	(7)
Transportation	13	0	(1)	(0)
Other	117	393	(7)	(20)
<b>Total</b>	<b>821</b>	<b>2,617</b>	<b>(49)</b>	<b>(313)</b>
of which held by AEGON The Netherlands and AEGON USA	617	2,228	(45)	(280)

The composition of equities held in the available for sale portfolio (and therefore excludes the trading portfolio) in an unrealized gain and loss status held by AEGON The Netherlands and AEGON USA at December 31, 2003 is presented in the table below:

	Carrying Value			Carrying Value of Securities		Gross	
	of Securities			with Gross		Unrealized	
	Cost	Carrying	Net Unrealized	with Gross	Gross Unrealized	with Gross	Unrealized
	Basis	Value	Gains/(Losses)	Unrealized Gains	Gains	Unrealized Losses	Losses
							in million EUR
Equities	3,919	4,643	724	4,026	769	617	(45)

*Unrealized Equity Losses by Maturity*

The table below provides the unrealized loss on equities at December 31, 2003 broken down by the period of time they have been below cost.

Time Period	0-6 months	>6-12 months	>12 months	Total
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				<b>in million EUR</b>
Equities	(24)	(6)	(15)	(45)

As of December 31, 2003, there were EUR 659 million of gross unrealized gains and EUR 36 million of gross unrealized losses in the equity portfolio of AEGON The Netherlands. None of the equities in the AEGON USA and AEGON The Netherlands portfolio were in a loss position of more than EUR 5 million.

## *Realized Losses on Equity Securities*

The table below provides the length of time the equities sold by AEGON The Netherlands and AEGON USA were below cost prior to the sale and the respective realized loss for the twelve month period ended December 31, 2003.

<b>Time Period</b>	<b>0-6 months</b>	<b>&gt;6-12 months</b>	<b>&gt;12 months</b>	<b>Total</b>
				<b>in million EUR</b>
Equities	(140)	(92)	(122)	(354)

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The realized loss of EUR 354 million includes an amount of EUR 271 million relating to securities that were impaired prior to their sale.

Shares are generally considered to be other-than-temporarily-impaired if the market value is below cost for a period of at least six months. However, independent third party documentation about the financial condition and near-term prospects of the issuer are also important factors taken into account.

These factors typically require significant management judgment. For equity securities considered to have an other-than-temporary impairment during 2003, a realized loss was recognized. The impairment review process has resulted for the year ended December 31, 2003 in EUR 250 million of impairment charges for AEGON The Netherlands, EUR 8 million for AEGON USA and EUR 10 million for AEGON UK.

Impairment losses under US GAAP for equities were concentrated in the following sectors:

Sector	Amounts of Impairments
	in million EUR
Communication	3
Consumer Cyclical	1
Consumer Non-Cyclical	141
Financials	37
Funds	6
Industry	13
Resources	13
Services Cyclical	42
Services Non-Cyclical	7
Technology	1
Utilities	1
Other	3
Total	268

The majority of the impairments of equities (EUR 250 million) related to the portfolio of AEGON The Netherlands. Equity impairments occurred in several large companies (companies with large market capitalization) and also in smaller companies in which AEGON The Netherlands holds large positions (companies in which AEGON The Netherlands owns more than 5% of the outstanding stock). A 5%-ownership fund is maintained whereby special tax advantages are received by AEGON The Netherlands when it holds 5% or more of the outstanding stock.

Consumer Non-Cyclical

AEGON The Netherlands share holdings in Royal Ahold (Ahold), a large food retail and services company in the Netherlands and the United States, produced an impairment of EUR 76 million in 2003. The preferred share holdings in Ahold were impaired by EUR 36 million in 2003. At December 31, 2003 the investment in preferred shares Ahold amounted to EUR 169 million and the investment in other shares amounted to

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EUR 51 million. Accounting concerns announced by Ahold in February 2003 were followed by a decline in the share price to a low of EUR 2.47 in March 2003 at which time an impairment charge was taken. AEGON The Netherlands' equity holdings in Ahold were in an unrealized loss position for 9 months before the impairment occurred. AEGON The Netherlands holds Ahold shares in its 5% ownership fund.

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AEGON The Netherlands' shareholdings in Pfizer Inc. (Pfizer) were impaired by EUR 7 million. Pfizer's share price fell approximately 28% in 2003 (in euro terms) due to patent expiration and delays in regulatory approvals of new products, but Pfizer has a series of promising products under development. Furthermore, Pfizer's announced acquisition in 2002 of Pharmacia Corp. was completed in the first quarter of 2003. The bulk of the impairment was the result of the decline of the US dollar compared to the euro. AEGON The Netherlands' equity holdings in Pfizer were in an unrealized loss position for 12 months before the impairment occurred.

AEGON The Netherlands' share holdings in CSM NV (CSM) were impaired by EUR 10 million on December 31, 2003. At December 31, 2003, the investment by AEGON The Netherlands in CSM amounted to EUR 53 million with a cost of EUR 63 million, representing an unrealized loss of EUR 10 million or 16%, prior to impairment. Based on industry analysts' views and AEGON's expectations about future market movements, AEGON determined to take an impairment at year-end. AEGON The Netherlands' equity holdings in CSM were in an unrealized loss position for 14 months before the impairment occurred.

### *Services Cyclical*

AEGON The Netherlands' share holdings in Randstad Holding N.V. (Randstad) were impaired by EUR 12 million in 2003. Randstad's share price fell through the end of March 2003. Based on industry analysts' views and AEGON's expectations about future market movements, AEGON determined to take an impairment at year-end. AEGON The Netherlands' equity holdings in Randstad were in an unrealized loss position for 9 months before the impairment occurred. AEGON The Netherlands holds Randstad shares in its 5% ownership fund.

AEGON The Netherlands' equity holdings in Viacom International Inc. (Viacom) were impaired by EUR 5 million in 2003. Viacom's share price fell through the end of March 2003. AEGON The Netherlands' equity holdings in Viacom were in an unrealized loss position for more than one year before the impairment occurred.

AEGON The Netherlands' share holdings in ExxonMobil Corporation (Exxon) were impaired by EUR 8 million. The bulk of the impairment is the result of the decline of the US dollar against the euro, as the share price increased in dollar terms. AEGON The Netherlands' equity holdings in Exxon were in an unrealized loss position for 11 months before the impairment occurred.

### *Pension expense*

Under DAP, SFAS 87 as described in "Application of Critical Accounting Policies - Dutch Accounting Principles" is applied only to our pension plans in the United States. Under US GAAP, SFAS 87 is also applied to our defined benefit pension plans in the Netherlands, the United Kingdom and Other Countries.

### *Goodwill*

Pursuant to SFAS 142, "Goodwill and Other Intangible Assets", 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

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indicate an impairment may be necessary. Impairment testing requires the determination of the fair value for each of our identified reporting units. The reporting units identified for AEGON based upon the SFAS 142 rules include; AEGON USA, AEGON Canada, AEGON The Netherlands, AEGON UK insurance companies and AEGON UK distribution companies, Other Countries and Transamerica Finance Corporation. The fair value of the insurance operations is determined using valuation techniques consistent with market appraisals for insurance companies, a discounted cash flow model requiring assumptions as to a discount rate, the value of existing business and expectations with respect to future growth rates and term. For our non-insurance operations, fair value was determined using a discounted cash flow analysis. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the determination of fair value involve significant 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 impairments recorded by AEGON under US GAAP are discussed in detail in - Certain Effects of US GAAP .

### i. Highlights

	2002	2001	%
	in million EUR		
<b>Income by product segment</b>			
Traditional life	1,457	1,557	(6)
Fixed annuities	174	358	(51)
GICs and funding agreements	272	215	27
Life for account policyholders	371	632	(41)
Variable annuities	(462)	120	
Fee business	2	94	(98)
Book profit Mexico		343	
Total Life insurance	1,814	3,319	(45)
Accident and health insurance	278	209	33
General insurance	62	67	(7)
<b>Total insurance activities</b>	<b>2,154</b>	<b>3,595</b>	<b>(40)</b>
Banking activities	8	45	(82)
Interest charges and other	(313)	(397)	(21)
Income before tax	1,849	3,243	(43)
Corporation tax	(353)	(918)	(62)
Transamerica Finance Corporation	51	72	(29)
<b>Net income</b>	<b>1,547</b>	<b>2,397</b>	<b>(35)</b>
<b>Income geographically</b>			
Americas	1,206	2,272	(47)
The Netherlands	659	924	(29)
United Kingdom	233	372	(37)
Other countries	64	72	(11)
Income before tax business units	2,162	3,640	(41)
Interest charges and other	(313)	(397)	(21)
Income before tax	1,849	3,243	(43)
Corporation tax	(353)	(918)	(62)

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Transamerica Finance Corporation	51	72	(29)
<b>Net income</b>	<b>1,547</b>	<b>2,397</b>	<b>(35)</b>

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	Americas	The Netherlands	United Kingdom	Other countries	Total
<b>in million EUR</b>					
<b>2002</b>					
Total life insurance gross premiums	7,218	3,573	6,433	517	17,741
Accident and health insurance premiums	2,608	162		78	2,848
General insurance premiums	0	447		320	767
Total gross premiums	9,826	4,182	6,433	915	21,356
Investment income insurance activities	7,546	1,454	176	149	9,325
Income from banking activities		416			416
Total revenues business units	17,372	6,052	6,609	1,064	31,097
Income from other activities					47
Total revenues					31,144
Number of employees, including agents employees	15,392	3,030	5,456	2,219	26,097

Net income for 2002 of EUR 1,547 million was 35% lower than in 2001 and gross income for 2002 of EUR 1,849 million was 43% lower than in 2001. Results were adversely affected by additions to the provision for bond defaults (EUR 817 million, an increase of EUR 186 million compared to 2001), accelerated amortization of DPAC (EUR 450 million) and increased provisions for products with guaranteed minimum benefit (EUR 482 million). Comparison with the prior year's result is positively influenced by the additional earnings from acquired J.C. Penney insurance operations (EUR 94 million). The 2001 gain on the sale of operations in Mexico (EUR 343 million) and the loss of earnings on these divested operations (EUR 81 million) negatively influences the comparison with the prior year. Adjusting for the above items, pre-tax earnings would have been marginally higher in 2002 than in 2001. The influence of currency exchange rates on net income was 2%. The strengthening of the euro relative to the US dollar and UK pound throughout 2002 and continuing in 2003 will have a negative impact on the 2003 reported net income of AEGON when converting the activity of operations outside the Netherlands to euros.

Total revenues were 2% lower (1% higher, excluding currency influence) and gross margin was 10% lower (excluding currency influence 6% lower). The decline in gross margin is due primarily to lower investment returns, higher bond default provisions and provisions for guaranteed minimum benefits. Commissions and expenses were 14% above 2001 (19%, excluding currency influence), which includes the higher DPAC amortization and the expenses of acquired operations. Excluding the acquired operations and the additional DPAC amortization, commissions and expenses were 3% higher.

The effective tax rate for 2002 was 19% compared to 28% for 2001. The lower effective tax rate is largely due to a reduction of the deferred tax liability 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. In the United States the reduction in the deferred tax liability and the corresponding reduction in tax expense consisted of a USD 219 million change in estimate as additional information and refinements of prior year deferred tax liability became available during 2002. This was partially offset by the establishment of an additional provision of USD 129 million, including a valuation allowance of USD 85 million for loss carryforwards.

In light of the recent highly volatile financial market environment, we are re-examining our insurance product portfolio and pricing strategies in terms of risk and reward, which may lead to modifications in product benefits and pricing.

Further deterioration in the economic outlook could reduce levels of business activity due to a decline in customer confidence. Reduced equity market and fixed income market returns would impact earnings and capital requirements. Even if equity markets improve it is possible that

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consumer confidence has been so significantly damaged that the sale of equity-based products may not reach the levels of the late 1990s in the near to medium term.

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While difficult to predict, we believe that the difficult credit environment may continue for some time causing default losses to remain at higher than historical levels.

A prolonged low interest environment will gradually reduce reinvestment income over time, potentially compressing spreads on some general account business. In addition, due to current minimum crediting rate guarantee requirements, new individual spread business such as deferred annuities may no longer be feasible to sell. Any sharp movements upward in new money interest rates will place competitive pressure on existing deferred annuity business, potentially causing some spread compression and/ or disintermediation.

The fiscal or other policies adopted by the US, Dutch or UK government or the European Union can affect our business outlook and earnings. We cannot predict the impact or nature of these future changes in policy.

The following selected financial data should be read in conjunction with our consolidated financial statements and the related notes to the financial statements in Item 18 of this Annual Report. Our discussion of our full year results for 2002 includes comparative information presented in USD for our results in the Americas and in GBP for our results in the United Kingdom, which management believes is useful to investors because those businesses operate and are managed primarily in those currencies.

**i. Americas (includes AEGON USA and AEGON Canada)**

	in million USD			in million EUR		
	2002	2001	%	2002	2001	%
<b>Income by product segment</b>						
Traditional life	813	792	3	859	884	(3)
Fixed annuities	165	321	(49)	174	358	(51)
GICs and funding agreements	257	193	33	272	215	27
Life for account policyholders	106	93	14	112	104	8
Variable annuities	(437)	107		(462)	120	
Fee business	5	74	(93)	5	83	(94)
Book profit Mexico		307			343	
Life insurance	909	1,887	(52)	960	2,107	(54)
Accident and health insurance	233	146	60	246	164	50
General insurance	0	1		0	1	
Income before tax	1,142	2,034	(44)	1,206	2,272	(47)
Corporation tax	(226)	(606)	(63)	(239)	(677)	(65)
<b>Net income</b>	<b>916</b>	<b>1,428</b>	<b>(36)</b>	<b>967</b>	<b>1,595</b>	<b>(39)</b>

*Income before tax*

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Income before tax of USD 1,142 million declined 44% from 2001, or 34% after adjustment for the USD 307 million gain on sale of the Mexico joint ventures in 2001. Strong institutional spread based product performance and a full year of earnings from the J.C. Penney insurance operations were more than offset by asset default provisions of USD 774 million (an increase of USD 209 million compared to 2001), accelerated variable annuity DPAC amortization of USD 327 million and increased minimum guaranteed benefit reserves of USD 203 million. Invested assets are segmented by product and the higher default losses have impacted all lines of business.

Traditional life products generated income before tax of USD 813 million, an increase of 3% over 2001. These products were negatively impacted by USD 160 million of bond default provisions and lower investment yields. Fixed annuity products generated income before tax of USD 165 million, a decline of 49% from 2001. These products experienced the brunt of bond defaults with USD 401 million. Efforts taken to reduce credit exposure early in the year also reduced investment income causing spreads to narrow, although a lower lapse rate and reduced DPAC amortization provided some positive relief. Fixed annuity interest crediting rates may be adjusted,

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subject to minimum guarantees, on policy anniversary dates, allowing for improved spreads. GICs and funding agreements generated income before tax of USD 257 million, an increase of 33% from 2001. The investment portfolio for these products utilizes swaps to effectively convert these liabilities to a floating rate. The investment strategy includes primarily floating rate instruments but utilizes a mismatch strategy where the matched assets have a slightly longer (about 1/4 of a year) maturity than the liabilities. This provided increased investment spread during 2002 that helped to offset USD 174 million of default losses on these products. Life for account of policyholders generated USD 106 million of income before tax, an increase of 14% over 2001. The policyholder bears the investment risk while the company earns fees and cost of insurance charges. Variable annuity products generated a loss of USD 437 million before tax compared to income of USD 107 million in 2001. This loss resulted from the additional DPAC amortization and the provisions for guaranteed minimum benefits discussed previously. Fee business included USD 74 million of income in 2001 from the Mexico joint ventures, which were sold at the end of 2001.

*Net income*

Net income of USD 916 million reflects a decline of 36% from 2001, or 22% when adjusted for the after-tax gain in 2001 of USD 260 million on the sale of the Mexico joint ventures. The corporate tax provision reflects an effective rate of 20% compared to an effective rate of 28% in 2001, adjusted for the tax impact of the Mexico joint venture sale in 2001. The lower effective tax rate is largely due to a reduction of the deferred tax liability and lower taxable income relative to tax preferred investments and tax-exempt income. The reduction in the deferred tax liability and the corresponding reduction in tax expense consisted of a USD 219 million change in estimate as additional information and refinements of prior year deferred tax liability became available during 2002. This was partially offset by the establishment of an additional provision of USD 129 million, including a valuation allowance of USD 85 million for loss carryforwards.

*Revenues*

Revenues of USD 16,448 million increased 1% compared to 2001. Life insurance gross premiums of USD 6.8 billion decreased 2%, accident and health insurance premiums of USD 2.5 billion increased 18%, while investment income of USD 7.1 billion decreased 1%. Life general account premiums of USD 5.4 billion increased 4%. Existing distribution channels along with new agency relationships have consistently increased life sales. Life policyholders' account premiums of USD 1.4 billion decreased 17% due to lower sales of variable life insurance. A full year of activity from the J.C. Penney insurance operations, acquired in mid 2001, provided the significant increase in accident and health premium. Investment income has been negatively impacted by declining market interest rates and lost income on defaulted assets. The indirect return from equity and real estate investments increased USD 45 million.

*Commissions and expenses*

Commissions and expenses increased 16% from 2001. Included in the increased expenses was accelerated DPAC amortization of USD 327 million related to variable annuity products and USD 80 million related to fixed annuity products (see Application of Critical Accounting Policies Dutch Accounting Principles for a detailed discussion of this item). Operating expenses decreased 4% after adjusting for acquired businesses, including the J.C. Penney insurance operations. Leveraging administrative and marketing operations across the organization, such as the creation of AEGON Financial Partners, contributed to the expense improvement. Despite the focus on cost controls, technology investments were maintained to advance service and efficiency as evidenced by the ongoing development of the Enterprise Client System, which provides efficient access to customer accounts.

The gross margin of USD 4,676 million decreased 8% from 2001 or 2% when adjusted for the gain in 2001 on the sale of the Mexico joint ventures. The gross margin is after deduction of benefits to policyholders, technical provisions and the bond default provision, but before

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deduction of commissions and operating expenses. Aggressive efforts were taken early in 2002 to anticipate problem credits in the bond portfolio, reduce credit limits, and tighten controls. While these actions mitigated the effect of unprecedented levels of corporate bond

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defaults, elevated losses were nonetheless incurred. Accordingly, USD 774 million was added to the default provision during 2002, while impairments of USD 791 million were charged against existing provisions, leaving a balance at December 31, 2002 of USD 281 million (see Application of Critical Accounting Policies Dutch Accounting Principles for a detailed discussion of this item).

### *Production*

New life single premium production was about 18% lower in 2002 as compared to 2001 primarily due to lower sales of Bank Owned Life Insurance (BOLI) and Corporate Owned Life Insurance (COLI). The BOLI/COLI insurance was severely affected by negative economic conditions, including low interest rates, and we look for a gradual strengthening of production in 2003. Recurring life premium production increased 4% over 2001 due to solid contributions from multiple sales channels. Deposits into fixed and variable annuity contracts and institutional spread based products (GICs and funding agreements) are recorded directly to the balance sheet as a deposit liability and not reported in revenue. Fixed annuity deposits of USD 7.2 billion reflected an increase of 6% over 2001. The solid increase in fixed annuity product sales was due to continued expansion in the bank sales channel and from the combination of poor equity market performance and declining interest rates offered on CDs and other interest bearing deposits. In late 2002 AEGON USA introduced new products with a minimum interest rate guarantee of 2% in any particular year subject to nonforfeiture requirements of earning a cumulative rate of 3% on 90% of the original premium, consistent with many competitors. Institutional spread based deposits decreased 10% from 2001 to USD 9.8 billion, while assets under management increased 5% to USD 26.0 billion reflecting AEGON USA's continued transition to longer-term products. Variable annuity deposits of USD 9.9 billion increased a very strong 67% following a decline in 2001. The continued development of preferred relationships with wire houses, regional brokerage firms and independent producers were the primary contributors to this growth. Beginning in 2003, AEGON USA discontinued offering a minimum income annuitization option; this was a popular feature and is expected to negatively impact new sales of variable annuities.

Off balance sheet products include managed assets such as mutual funds and collective investment trusts and synthetic GICs. Managed asset deposits increased 4% from 2001 to USD 6.6 billion due to strong growth in retirement product sales. Synthetic GIC deposits also increased 4% to USD 12.2 billion as pension plan sponsors preferred stable value alternatives. AEGON USA does not manage the assets underlying a synthetic GIC but receives a fee for providing a guarantee to benefit plan sponsors that it will provide cash advances, to be re-paid with interest, in the event that plan benefit requests exceed plan cash flows.

### *Other*

In the 2003 Budget proposal, President Bush proposed an economic stimulus package to retirement savings. The centerpiece of the stimulus proposal is the elimination of the double taxation on corporate dividends. Both the Bush administration and Congress have expressed concerns regarding the impact of the proposal on variable annuities. The life insurance industry has proposed that dividends in equity securities held in separate accounts flow through to increase the basis in the variable annuity contract. The overall impact of these proposals on AEGON USA's products and corporate tax burden cannot be accurately predicted at this time. Initial legislative language has been introduced to implement certain aspects of the President's proposals, which is currently the subject of debate and testimony before Congress. It is too early to predict the final form of the legislation that Congress will pass, if any. The tax legislation could increase or reduce tax-advantages for some of AEGON USA's life insurance and annuity products.

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	2002	2001	%
	—	—	—
	in million EUR		
<b>Income by product segment</b>			
Traditional life	552	614	(10)
Life for account of policyholders	49	192	(74)
	—	—	—
Life insurance	601	806	(25)
Accident and health insurance	26	36	(28)
General insurance	24	37	(35)
	—	—	—
Total insurance activities	651	879	(26)
Banking activities	8	45	(82)
	—	—	—
Income before tax	659	924	(29)
Corporation tax	(136)	(228)	(40)
	—	—	—
<b>Net income</b>	<b>523</b>	<b>696</b>	<b>(25)</b>

*Income before tax*

Income before tax of EUR 659 million decreased 29% compared to 2001. The depressed equity markets had a significant negative effect on 2002 income before tax and also led to an addition to the provision for guaranteed minimum benefits of EUR 209 million.

Income before tax from traditional life products decreased 10% from 2001 to EUR 552 million, mainly due to lower interest results, additional write-offs of DPAC because of higher than expected lapses and lower contribution margins as a consequence of lower production.

Income before tax from life for account of policyholders decreased 74% from 2001 to EUR 49 million, reflecting the EUR 209 million strengthening of the provisions for guarantees on unit-linked products, which was partly offset by the EUR 39 profit on the divestiture of the VGGM portfolio (Verzekeringsgroep Gezond en Geestelijke Maatschappelijke Belangen a large Dutch pension fund) and the release of a part of the provision for benefit-payment costs.

Income before tax from accident and health insurance decreased 28% from 2001 to EUR 26 million, reflecting negative run-off results on previous underwriting years in the portfolio. During 2002 it was decided to switch from investment in equities to fixed income securities for solvency and asset-liability matching reasons. This had a negative effect on investment income in this product segment.

General insurance income before tax decreased 35% from 2001 to EUR 24 million, mainly due to increased policy claims from the effects of the October storm in the Netherlands, the worst storm in ten years, and a switch from equity investments to fixed income investments resulting in lower investment returns.



Income before tax from banking activities decreased 82% from 2001 to EUR 8 million. The lower results reflect lower production, the lower spread on saving accounts and the addition to the provision for credit risk. AEGON's banking activities consist of saving accounts and security lease products.

*Net income*

Net income decreased by 25% from 2001 to EUR 523 million, reflecting a reduction in the effective tax rate from 25% to 21% due to the increased share of tax exempt items and indirect return in income before tax.

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### *Revenues*

Revenues of EUR 6,052 million in 2002 approximately equalled 2001. Life insurance gross premiums of EUR 3,573 million decreased by 2% from 2001. Single premiums increased by 6% from 2001, despite the divestiture of the VGGM contract, which had a negative effect of EUR 181 million. The increase in 2002 single premiums was primarily from the pension business. Recurring premiums decreased 8% from 2001, as the continuous process of restructuring the Dutch fiscal system caused a large number of customers to pay up their policies or terminate their contracts. Also the austerity of the employee's savings scheme by the government, the abolishment of the premium savings scheme by the government and a decline in basic life annuity premiums caused lower sales in 2002 as intermediaries invested primarily in pension products. Premium income in accident and health and general insurance business showed an increase of 11% and 6% from 2001, respectively. Premiums for a broad range of non-life products were increased in 2002 to cover increasing claims. Investment income for insurance activities decreased by 2% from 2001, due primarily to the shift in sales of life insurance products from traditional life to life for account of policyholders, for which investment income is not recognized in this line item. Due to the establishment of AEGON Asset Management as a separate business unit instead of a cost center, the management fees earned in 2002 are presented on a gross basis, which had an effect on Other Income and expenses in 2002 of EUR 60 million. Prior year amounts were relatively small and allocated to the various business units. Revenues from banking activities increased 8% over 2001 to EUR 416 million, due largely to a change in presentation of the results of AEGON Asset Management. In prior years, these results were allocated to various business units whereas this year all results are included in Income from banking activities. Investment income for the account of policyholders represents the change in market value in 2002 of the investments for the account of policyholders.

### *Commissions and expenses*

Commissions and expenses amounted to EUR 666 million, a 20% increase from 2001. This includes EUR 60 million in investment costs that were recognized on a gross instead of a net basis and which were offset by an equal amount of revenues. Another portion of the increase resulted from the additional write-off of DPAC caused by higher than expected lapses.

### *Production*

Saving deposits of EUR 3,386 million represent only the incoming cash flow. The balance of the savings deposits was EUR 6.3 billion at December 31, 2002, which was approximately the same as at the end of 2001.

Off balance sheet managed assets produced an inflow in the asset management segment of EUR 1,223 million. The balance at December 31, 2002 amounted to EUR 1,689 million.

### *Other*

On December 23, 2002 AEGON The Netherlands acquired 100% of the shares of TKP Pensioenen B.V. (TPG and KPN pension funds), which administers pension schemes of a number of Dutch companies. The consolidation of the acquisition increased total assets by EUR 3 million.

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As of January 1, 2002 the effective tax rate in the Netherlands has been lowered from 35% to 34.5%. The minor change had no material impact on liquidity, financial condition or operations.

As discussed above, the austerity of the employee's savings scheme, the abolishment of the premium savings scheme and a decline in the tax deductible basic life annuity premiums caused intermediaries to seek temporary safe harbors in pension products. Employers are searching for alternative remuneration systems via additional pension rights on an individual basis. We plan to benefit from strong cooperation between AEGON business units, using each other's expertise, to introduce new products to meet customers' demands.

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	2002	2001	%	2002	2001	%
	—	—	—	—	—	—
	in million GBP			in million EUR		
<b>Income by product segment</b>						
Traditional life	12	14	(14)	19	22	(14)
Life for account policyholders	140	215	(35)	224	346	(35)
Fee business	(6)	2		(10)	4	
	—	—		—	—	
Income before tax	146	231	(37)	233	372	(37)
Corporation tax	(34)	(66)	(48)	(55)	(107)	(49)
	—	—		—	—	
<b>Net income</b>	<b>112</b>	<b>165</b>	<b>(32)</b>	<b>178</b>	<b>265</b>	<b>(33)</b>

*Income before tax*

Income before tax of GBP 146 million in 2002 decreased 37% compared to 2001. The income before tax in the Traditional life product segment was GBP 12 million in 2002 a decline of 14.3% compared to 2001. Although the movement in profit of GBP 2 million was quite small, there are a number of offsetting items. In particular, we have set up provisions to cover costs associated with the expense management program to cover redundancy and associated costs. The total cost of implementing the program, which is targeted to deliver a significant amount of annualized savings, is budgeted to be GBP 25 million: GBP 18 million relates to the period to December 31, 2002, the remainder will be incurred in 2003. These costs have been largely offset by the release of reserves from certain closed blocks of business.

Income before tax in the Life for account of policyholder product segment was GBP 140 million for 2002 a decline of 35% compared to 2001. The profitability of this product segment is heavily related to the level of the equity markets, as the main source of income is charges on unit-linked business. The significant decline in equity markets during 2002 has had a markedly negative effect on earnings. AEGON UK has experienced approximately GBP 40 million of lower income due to lower policy charges, which are directly related to equity market movements. Reserves have been increased to cover mortgage endowment compensation payments associated with shortfalls on policies sold to cover mortgage repayment within our Guardian business unit. During 2002 the Business Change Program (BCP), which involved major systems development was substantially completed, incurring additional costs of GBP 8 million. AEGON UK has also seen lower profits from policy surrenders and from lower initial margins as its amount of stakeholder friendly business increases. Stakeholder friendly business has no exit penalties and lower initial margins.

During 2002 AEGON UK entered into a contract with Merrill Lynch, Baillie Gifford and Deutsche Bank to manage pension funds as part of its external fund links offering. This allows policyholders to access our fund managers in addition to our in-house managers. The contracts have been structured as reinsurance contracts at the request of the three fund managers to allow them to offer stakeholder terms. As these are pension contracts there is no risk transfer. The credit risk is borne by the pension contract-holders. There is no income effect from these contracts, but it did result in a GBP 511 million impact on premiums to reinsurers, with an offsetting change in technical provisions.

During 2002 AEGON UK acquired stakes in a number of distribution companies. The increase in income and expenses in the Fee product segment is primarily due to the inclusion of these businesses. The overall reduction to gross income in the fee business segment is primarily due to lower fee income on our asset management products as a result of lower equity markets in 2002.



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### *Net income*

Net income for 2002 of GBP 112 million declined 32% compared to 2001. Contributing to the decrease in net income is a reduction in the effective tax rate to 23% from 29% in 2001 due to the utilization of tax losses as a result of a settlement with the UK Inland Revenue in the fourth quarter of 2002.

### *Revenues*

Revenues of GBP 4,152 increased 3% from 2001, primarily due to a 57% increase in premiums from life general account products, although these products only provided about 6% of total premiums in 2002. Investment income of GBP 110 million increased 38% from 2001 due to growth of the general account assets.

### *Production*

AEGON UK experienced a substantial increase in new business in its individual protection business unit (AEGON Individual Protection) with premium income growing from GBP 6 million in 2001 to GBP 23 million in 2002 reflecting the growth in this business line. This business unit was launched in 2001.

AEGON UK has also experienced an increase of GBP 61 million in the premiums on immediate annuities, which arise from the increasing maturity of the Scottish Equitable pension book.

### *Other*

The UK Group has developed strategic plans for its organic growth given the changing regulatory and economic environment in which we operate. If these plans are not in line with market developments or are implemented badly, there could be a negative impact on earnings.

The introduction of the 1% charge cap on Stakeholder pension price (a 1% annual management charge limit aimed at widening the number of individuals with a pension) has reduced gross margins on pension products in the United Kingdom, and although this has substantially been reflected in 2002 trading conditions, it has the potential to further erode gross margins in the future.

The Financial Services Authority is proposing significant change to the regulation of distribution firms in the United Kingdom, which is currently expected to take effect during 2004. The impact on AEGON UK's business is uncertain at this stage.

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New rules on prudential regulation in the United Kingdom will increase the focus on risk management within organizations such as AEGON UK. Failure to demonstrate sound risk management procedures could lead to increased capital requirements from 2005 onwards.

### *Acquisitions*

The UK Group acquired a number of independent financial advisor (IFA) businesses in 2002, the full financial impact of which will only be seen in the 2003 results.

**Table of Contents***Discontinued Operations*

The UK Group administers a closed book of business in respect of the Guardian Royal Exchange business acquired in 1999. There are two uncertainties related to this book of business:

further change in the approach of regulators to compensation of endowment mortgage customers could negatively impact net income;  
and

failure to manage the run off of the closed book well could lead to increased unit costs and a decline in profitability.

**iv. Other Countries**

	<u>2002</u>	<u>2001</u>	<u>%</u>
	<b>in million EUR</b>		
<b>Income by product segment</b>			
Traditional life	27	37	(27)
Life for account of policyholders	(14)	(10)	(40)
Fee business	7	7	0
	<u>          </u>	<u>          </u>	
Life insurance	20	34	(41)
Accident and health insurance	6	9	(33)
General insurance	38	29	31
	<u>          </u>	<u>          </u>	
Income before tax	64	72	(11)
Corporation tax	(12)	(11)	9
	<u>          </u>	<u>          </u>	
<b>Net income</b>	<b>52</b>	<b>61</b>	<b>(15)</b>

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

*Hungary*

**Income before tax.** ÁB-AEGON reported income before tax of Hungarian Forint (HUF) 14.3 billion for 2002 a decline of 7% compared to 2001. Life income was level with 2001 while non-life income decreased 18%. Income before tax from fee business increased more than 15% (HUF 270 million) from 2001 due to a 26% increase in assets under management to EUR 1.3 billion.

Premiums to reinsurers increased by more than 50% (HUF 600 million) from 2001. Most of the increase relates to the household business due to the unfavorable trends in the international reinsurance markets and the increases in reinsurance premiums following the floods in Hungary in



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prior years. Non-life claims developed favorably in 2002. ÁB-AEGON's strict underwriting and claim control and the absence of a flood in 2002 positively impacted results in the household and car insurance business. Non-life technical provisions increased by 5%, partly as a result of a strengthening of technical provisions in household and car insurance businesses.

Higher expenses caused by IT upgrading projects were partly offset by higher premium loadings due to high sales volumes.

**Revenue.** Total revenues increased by HUF 3.2 billion over 2001. Premium income increased by HUF 2.5 billion from 2001, including HUF 2 billion in life, mainly unit linked products, and HUF 500 million in non-life. The non-life growth was due primarily to a HUF 1.2 billion increase in the household portfolio, partly offset by a HUF 700 million decrease in the car portfolio (Motor Third Party Liability and other motor). The renewed successful product and improved sales efficiency are the main factors in the high performance of the household branch. Investment income grew by almost HUF 500 million despite a 2% decrease in the 12-month Hungarian Treasury coupon rates.

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**Other.** The decelerating Hungarian life insurance market accompanied by the general decline in the investment markets, the steady decline of yields on Hungarian bonds and shares and the rapidly growing non-life market constituted an unfavourable environment for ÁB-AEGON. The adverse trends imposed substantial challenges on all enterprises of the life insurance sector. Although the trends prevailing in the market constituted substantial hindrances to ÁB-AEGON's growth, it retained the strong market-position in the area of regular life sales. Single premiums sales were lower in 2002 than in prior years, but the profit contribution from these products is small.

Successful innovations were introduced in 2002 in both sales and administration/customer service, such as renewed pricing structure, introduction of the franchise system for sales management, reform of the education system for independent agents, claim settlement by telephone, geographic information technology solutions, successful smooth consolidation and insourcing of the Call Center handling questions from customers. A comprehensive modernization of the corporate IT environment also commenced in 2002.

### *Spain*

**Income before tax.** AEGON Spain reported income before tax of EUR 12 million for 2002 a decrease of 25% compared to 2001. Pre-tax results in the life business showed a loss of EUR 11 million, a decrease of EUR 12 million compared to 2001. The main reasons for the decrease are the loss of Moneymaxx because of low production as a result of the current equity market situation and a write-off of unrecoverable DPAC.

General insurance reported a gain of EUR 17 million in 2002 compared to EUR 6 million in 2001, which is mainly due to the very low claim ratio in Motor, Legal Liability and other motor risks. The non-life claims ratio improved in all the lines of business, except in Marine, aviation, transport, which worsened in 2002 due primarily to a coinsurance accepted marine policy already cancelled by AEGON Spain because of the very high claim ratio. The improvement in the non-life claims ratio is primarily due to a decrease in the number of claims. This trend started in 1999, when measures were implemented to improve the quality of the portfolio.

Accident & health reported a pre-tax result of EUR 6 million in 2002, a 33% decline compared to 2001, mainly due to increased expenses and lower investment income in 2002.

**Revenues.** The uncertain economic climate and the negative performance of the stock markets negatively impacted the sale of unit-linked products. The Traditional life line of business premium suffered from more competitive pricing.

Compared to 2001, life premiums showed a further decrease of EUR 30 million from a single premium pension contract that was reported in 2001.

Non-life revenues were negatively affected by the cancellation of certain general liability policies where the risks were considered too high. AEGON Spain in 2002 concentrated on personal lines and small companies, while de-emphasizing products whose risks are not considered as strategic. This is the case for Other General Liability and Marine, aviation, transport, which showed decreases in premium income from 2001 of 25% and 42% respectively.

***Commissions and expenses.*** The 2002 results were negatively impacted by EUR 4 million of additional DPAC amortization and by increased marketing costs in connection with the Moneymaxx business.

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### *Taiwan*

**Income before tax.** AEGON Taiwan reported income before taxes of New Taiwan Dollar (NTD) 6.5 million for 2002, its first profitable year since it began operations in 1994, primarily due to the re-pricing of products and higher new business production.

**Revenues.** Premium income increased 120% to NTD 5,073 million for 2002 compared to NTD 2,302 million for 2001. The acquisition of the AXA Taiwan operations, introduction of new distribution channels (bancassurance and brokers) and launch of new products (investment-linked VUL and 104 whole life) contributed to this tremendous growth. New business premiums increased 229% to NTD 2,595 million in 2002.

Investment income decreased 2.5% to NTD 438 million in 2002, mainly due to declining interest rates and depressed equity markets. Investment assets increased from NTD 10.5 billion in 2001 to NTD 13 billion as of December 31, 2002 but the investment yield of 4.2% in 2002 declined from 6.2% in 2001.

**Commissions and expenses.** Expenses incurred in 2002 increased 12% to NTD 643 million for 2002 compared with NTD 575 million in 2001. The major reasons for the increase were higher personnel and occupancy expenses due to the integration of the AXA businesses and development of new distribution channels.

**Production.** Production on a standardized basis increased by 188% mainly due to the launch of new products.

### **v. Unconsolidated Group Companies**

Transamerica Finance Corporation (TFC) conducts business in commercial lending, intermodal leasing and real estate information services operations. Due to the dissimilarity between its operations in relation to the operations of AEGON, AEGON considers TFC to be a non-core operation and TFC's results are not consolidated.

Results for TFC were USD 48 million (EUR 51 million) as compared to USD 64 million (EUR 72 million) in 2001. This reflects lower asset balances for 2002 as well as tax benefits and investment gains included in 2001 results, which were non-recurring. The commercial lending unit's net finance receivable decreased USD 900 million (12%) from 2001, primarily due to the slowdown in the economy which led to a reduction in customer utilization of available credit lines. The allowance for losses was increased to 2.93% of net finance receivables from 1.93% with the addition primarily related to the aircraft portfolio. Revenues declined 6% in the intermodal leasing unit due to declines in per diem rates for maritime containers and fewer European trailers on-hire. Higher levels of mortgage refinancing activity led to increased flood certification and property payment and reporting fees for the real estate information services unit.

### **vi. Investments**

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AEGON country units are responsible for the management of their own investment portfolios. The asset and liability management policies employed in the units specify the level of risk and exposure that can be assumed by the relevant country unit based on changes in interest rates, credit quality, equity markets and exchange rates. Those policies are also monitored at AEGON Group level. During 2003 we will continue the ongoing process of integrating asset and liability risk management with capital management.

In 2002, AEGON's general account investment assets decreased 5.8% from 2001 to EUR 123.1 billion. These assets represent 44.4% of AEGON's total managed assets. On general account assets, AEGON carries the investment risk and earns a spread.

The general account assets in the Americas and the Netherlands represented 97% of AEGON's general account assets at December 31, 2002. The decrease during 2002 was mainly driven by currency exchange rate differences. In local currencies, the general account asset base of AEGON Americas grew 12.5% to USD 109 billion due to strong new production in traditional life products and fixed annuities. In the Netherlands, the total

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general account asset base decreased by 11.1%, mainly as a result of the decline of a 17.4% decrease in the value of our equity investments in 2002. In 2002, AEGON also rebalanced its portfolio from equities to fixed income investments while increasing slightly the credit quality of the fixed income portfolio despite the further deterioration of credit markets during the year by reinvesting at a slightly higher average credit quality.

Investments for the account of policyholders (34.2% of AEGON's total managed assets at December 31, 2002) decreased by 16.4% in 2002 to EUR 94.7 billion, driven by currency exchange rate changes and declines in equity markets. Strong new production in variable annuities in the Americas of USD 9.9 billion partially offset the impact of equity market declines. On investments for the account of policyholders, the investment risk is generally borne by the policyholders, in certain cases subject to minimum benefit guarantees provided by AEGON, and AEGON earns fee income through policy expense charges. For these investments, the shift toward fixed income allocations already apparent in the past two years continued in 2002, as the allocation in fixed income securities (49%) was brought almost equal to the allocation in equities (51%).

Assets related to banking activities increased 1.7% in 2002 to EUR 7.2 billion.

Off-balance sheet investments (third party asset management, mutual funds and synthetic GICs), on which we also earn fees, represented 18.8% of total managed assets and declined slightly in 2002 to EUR 52 billion as a result of the lower US dollar exchange rate, more than offsetting increased new production in third-party asset management and synthetic GICs.

### **vii. Certain Effects of US GAAP**

A net loss of EUR 2,328 million was reported over 2002 based on US GAAP accounting principles, compared to a net profit of EUR 632 million in 2001. The US GAAP net loss reflects the same financial statement impacts that were previously described on a Dutch accounting basis.

See Note 18.5 to our consolidated financial statements in Item 18 of this Annual Report for a complete discussion of the differences for net income and shareholders' equity under Dutch accounting principles and US GAAP. The most significant differences in 2002 related to the treatment of realized capital gains and losses and goodwill.

Capital losses on shares and real estate realized on a US GAAP basis totaled EUR 1,493 million (including EUR 1,057 million other-than-temporary impairment write downs 2001:EUR 36 million) compared to indirect return income of EUR 758 million under Dutch accounting principles. Capital gains (losses) are recognized when they are realized pursuant to US GAAP while the indirect return methodology is applied under Dutch accounting principles. See Application of Critical Accounting Policies Dutch Accounting Principles .

Goodwill impairment charges are recorded on a US GAAP basis while goodwill is charged off to equity on a Dutch accounting basis at the time of acquisition. A cumulative effect of a change in accounting principle of EUR (1,295) million was recorded as of January 1, 2002 from adoption of SFAS 142 Goodwill and Other Intangible Assets (see Note 18.6 to our consolidated financial statements in Item 18 of this Annual Report for more information on the adoption of SFAS 142). This non-cash goodwill impairment charge related primarily to the Transamerica non-insurance business. Factors resulting in the impairment charge were the down turn in the economic environment, particularly in the technology sector of the commercial lending segment, and increased price competition from other financial institutions. The required annual goodwill impairment test under SFAS 142 was performed in the fourth quarter of 2002 and resulted in an additional goodwill impairment charge of EUR 670 million in the AEGON USA reporting unit. This impairment charge has been reported as a 2002 US GAAP operating expense. The

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primary factor resulting in the non-cash impairment charge for AEGON USA during the fourth quarter was due to the uncertainty in the current economic environment. The uncertainties include among others a continuation of the low interest rate environment resulting in compressed spreads, reduced expectations for total return rates in equity markets, an uncertain level of defaults in the fixed maturity markets and a reduction in the anticipated new business. In 2001 an amount of EUR 496 million was recorded as goodwill amortization expense.

**Table of Contents****5.7 Off-Balance Sheet Arrangements**

AEGON Levensverzekering N.V. completed two privately placed securitization programs in 2002 whereby the economic ownership of EUR 1.7 billion of aggregate mortgage receivables was conveyed to third parties. The transfer of the ownership title will take place upon notification of the borrowers by either AEGON or the third parties. The third parties have the right to notify the borrowers upon the occurrence of certain pre-defined notification events. A first preferred silent right of pledge on the mortgage receivables was given to the third parties. At the same time AEGON entered into a fixed-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (scheduled yield from the mortgage receivables). Under both programs AEGON received the right to repurchase all of the mortgage receivables at a price equal to the then current portfolio market value of the receivables provided that AEGON simultaneously terminates the swap upon payment of the market value of the swap. For one program that right exists for the remainder of the term. The other program only allowed AEGON to repurchase the receivables between March 2003 and September 2003 and no longer permits AEGON this right.

AEGON Levensverzekering N.V. completed two publicly placed securitization programs in 2003 whereby the economic ownership of EUR 2.3 billion of aggregate mortgage receivables was conveyed to two special purpose companies. Both companies funded this purchase with the 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 companies. The special purpose companies have the right to notify the borrowers upon the occurrence of certain pre-defined notification events. A first preferred silent right of pledge on the mortgage receivables was given to the special purpose companies. At the same time AEGON entered into a fixed-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (scheduled yield from the mortgage receivables). For both programs, after a period of seven years, the interest of the notes, issued by the special purpose companies will step-up, together with a similar step-up in the fixed-floating swap agreement. At this time, the special purpose companies have the right to call the notes. In 2003, one of the privately placed securitizations from 2002 was called by AEGON Levensverzekering N.V. and bought back at market value. AEGON Levensverzekering N.V. has now a total of three publicly and two privately placed securitization programs outstanding with a total size of around EUR 5 billion.

AEGON uses the securitization programs to enhance its liquidity.

**5.8 Contractual Obligations and Commitments****i. Investments contracted**

	<b>2003</b>	<b>2002</b>
Real estate	(5)	(100)
Mortgage loans	392	366
Bonds and registered debentures:		
Purchase	0	0
Sale	(51)	0
Private placements	16	84
Other:		
Purchase	451	552
Sale	0	0





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	Payments due by period				Total
	Less than 1 year	1-3 years	4-5 years	More than 5 years	
Long-term debt	1,225	2,634	1,330	1,880	7,069
Operating leases	77	120	92	194	483
Annuities with and without life contingencies	659	1,328	1,226	22,328	25,541
GICs and funding agreements	6,144	2,971	3,376	9,052	21,543
Other long-term obligations	7	13	13	48	81

A significant portion of operating leases is for agency and administration offices.

GICs and funding agreements are sold to a broad array of institutional customers. Refer to Note 18.1.14 for additional disclosures regarding GICs and funding agreements.

Other long-term obligations include contractual obligations for exclusive direct marketing advisory services worldwide and licensing arrangements to access customer information to sell approved products.

**iii. Collateral and guarantees given to third parties**

	2003	2002
Bonds and registered debentures	2,373	2,435
Ceded and securitized mortgage loans	5,091	3,792
Standby letters of credit	964	1,022
Guarantees	287	316
Other commitments	827	955
Other collateral and guarantees	559	0

The bonds and other fixed rate investments function mainly as collateral granted by AEGON subsidiaries abroad, to meet legal requirements and also include collateral guarantees given by subsidiaries under reciprocal insurance contracts.

The guarantees on ceded and securitized mortgage loans cover the interest rate risk at early redemption of these loans.

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Standby letters of credit amounts reflected above are the liquidity commitment notional amounts. AEGON enters into agreements to provide liquidity for high quality multi-seller asset backed commercial paper conduits and municipal variable rate demand note facilities. Management does not anticipate any future funding requirements that would have a material effect on reported financial results.

A significant portion of the guarantees represent an agreement with a fund of funds manager to pay 50% of the excess of the amount of principal protection over the value of the fund of fund assets at the maturity of the principal protection instrument. At December 31, 2003, the notional amount of the principal protection was EUR 271 million, which represents the maximum amount of potential future payments (undiscounted). AEGON earns a fee in exchange for providing the principal protection and, at December 31, 2003, the maturities of the underlying fund portfolios were for 2004: EUR 19 million; for 2005: EUR 21 million; for 2006: EUR 120 million; 2007: EUR 63 million; for 2008: EUR 41 million; and thereafter EUR 7 million. The underlying fund portfolios are restricted as to investment instruments held and are required, upon a decline in value below a formula based threshold, to replace the assets with fixed income instruments in order to minimize the principal protection liability. Accordingly, management does not anticipate any future funding requirements with respect to the principal protection that would have a material effect on reported financial results. Refer to Note 18.6.13 for additional disclosures regarding guarantees of fund of fund.

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Guarantees further include guarantees given on account of asset management commitments. In this regard, besides the guarantees shown in the table, guarantees have been given for unlimited amounts.

Other commitments include private placement commitments, mortgage loan commitments, and limited partnership commitments.

Certain insurance and investment products have minimum guarantees for which provisions have been made in the technical provisions and are therefore not included in the above table. These guarantees are discussed in Note 18.1.14.

AEGON has also guaranteed certain credit lines and commercial paper of Transamerica Finance Corporation. These guarantees are not included in the above table. Transamerica Finance Corporation had EUR 2,256 million in commercial paper outstanding at December 31, 2003.

## **5.9 Subsequent Events**

On January 2, 2004, AEGON closed the acquisition of a 45% participation in Unirobe, a group of insurance intermediary companies in the Netherlands.

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

On January 28, 2004, AEGON announced that it had reached final agreement on a strategic partnership with Caja de Ahorros del Mediterráneo (CAM), a large savings bank in Spain. The agreement comprises the establishment of a new Spanish holding company, which will be owned 50,01% by CAM and 49,99% by AEGON. CAM will contribute 100% of its insurance subsidiary Mediterráneo Vida to the holding company and provide exclusive access to its customer base through its network of 851 branches. AEGON will contribute EUR 150 million in cash to the holding company and an additional EUR 250 million in high quality financial assets. At the end of the fifth year, the final consideration for the insurance subsidiary will be determined on the basis of achieved performance and according to a pre-agreed formula. After the tenth year, parties have agreed to reassess the legal structure in place and both have the right to unwind the holding company without terminating the partnership. If it is decided to unwind the holding company, CAM and AEGON will own 50 % of the life insurance company directly. The EUR 250 million in high quality financial assets plus accrued investment income will return to AEGON. The remainder of the assets of the holding company will transfer to CAM. The partnership is subject to regulatory approval.

AEGON announced that its Supervisory Board intends to propose to the annual General Meeting of Shareholders to be held on April 22, 2004 to appoint Mr. René Dahan, Mr. Irving W. Bailey II and Mr. Peter Voser as members of the Supervisory Board.

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### **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

#### **6.1 Introduction**

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

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

#### **6.2 General Meeting of Shareholders**

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

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

In accordance with the Articles of Incorporation, requests to add subjects to the agenda of a General Meeting of Shareholders made by shareholders representing at least 0.1% of the issued common shares will generally be honored unless the Supervisory Board and Executive Board determine that there are important Company interests that would oppose them.

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, so long as they provide evidence of shareholders' status and the intention to attend the meeting. When convening a General Meeting of Shareholders, the Executive Board can set a record date for determining the entitlement of shareholders to attend and vote at the General Meeting.

As a participant of Stichting Communicatiekanaal Aandeelhouders (a Dutch foundation with the purpose of enhancing communication with and participation of shareholders at General Meetings), AEGON welcomes the possibility of voting by proxy. Moreover, proxies are solicited from New York registered shareholders in accordance with US practice.

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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 25/12 votes per preferred share in the event of a special cause and limited to a period of six months per special cause .

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.

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### **6.3 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 and the terms of employment of the Executive Board members are determined by the Supervisory Board. Members of the Executive Board can retire at the age of 60 and must retire at the age of 62. The Articles of Incorporation require the Executive Board to obtain the prior approval of the Supervisory Board for a number of resolutions. The Supervisory Board may subject further resolutions of the Executive Board to its prior approval.

### **6.4 Supervisory Board**

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

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

### **6.5 Dutch Corporate Governance Code**

#### **i. General**

In December 2003, the final version of a new Dutch Corporate Governance Code (the Code) was adopted. The Code was prepared by a committee formed by the Dutch Minister of Finance and the Minister of Economic Affairs whose members represented a number of leading organizations from the Dutch business community. The committee was chaired by Mr. Morris Tabaksblat, who is also the chairman of AEGON's Supervisory Board.

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

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

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

AEGON endorses the Code and its principles of good corporate governance. AEGON intends to use the Code and its principles to continue and enhance interaction with our stakeholders on corporate governance with the view to bringing its corporate governance standards in compliance with the Code.

Immediately subsequent to its publication, AEGON initiated a process aimed at implementing the Code in our corporate governance. In line with the recommendations of the code, the chapter below gives an overview



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specifically indicating where our corporate governance is already compliant with the code. To the extent that AEGON does not fully comply with the best practice provisions of the Code, the reasons therefor are explained and the actions the Supervisory Board and the Executive Board contemplate taking are set out.

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

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

### **ii. Implementing the Code**

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

Each time a substantial change in our corporate governance structure or our compliance with the Code is contemplated, we intend to submit the changes to the General Meeting of Shareholders for discussion under a separate agenda item. [I.2]

### **iii. Executive Board**

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

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

In 2003, AEGON established the Group Risk and Capital Committee at group level. This is in addition to the pre-existing risk management systems set up at country unit level. The objectives of the Group Risk and Capital Committee include monitoring AEGON's overall risk exposures, making recommendations and overseeing remedial action where exposures are deemed excessive. Moreover, this Committee is tasked with ensuring that risks are well measured and managed within the country units. The Group Risk and Capital Committee regularly

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reports to the Executive Board and the Supervisory Board. In our annual report, the Executive Board will comment on the adequacy and effectiveness of its internal risk management and control systems also describing any significant changes and improvements that are contemplated. [II.1.3; II.1.4]

In 2002, AEGON adopted a Code of Conduct at group level. The Code of Conduct is monitored and implemented by a task force reporting directly to the Executive Board. This is in addition to the pre-existing Codes of Conduct adopted earlier by the majority of AEGON's country units. The Code of Conduct includes appropriate whistleblower provisions, which give employees the ability to report on suspected irregularities without jeopardizing their positions. 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. Our group level Code of Conduct is posted on our website [www.aegon.com](http://www.aegon.com). [II.1.3; II.1.6]

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Our annual report to shareholders as well as this report include information about the most important external factors and variables influencing our results. These sensitivity analyses customarily disclosed include our management's views about our sensitivity to interest rates, equity and real estate markets, long-term assumptions and currency markets. The Executive Board and Supervisory Board will continue to consider the publication of additional sensitivity analyses if and when appropriate. [II.1.5]

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

### **iv. Remuneration**

In 2003, the Supervisory Board has on the advice of the Compensation Committee made amendments to the remuneration policy, which amendments came into effect on January 1, 2004. This revised remuneration policy will be submitted to the General Meeting of Shareholders on April 22, 2004 and, if adopted, be in place for a period of three years.

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

The remuneration of the members of the Executive Board includes fixed and variable components. For the variable components, the Supervisory Board has set clear and measurable criteria including performance of the AEGON share price and the development of AEGON's earnings per share. For an overview of the remuneration policy for the Executive Board, please refer to Item 6, Directors, Senior Management and Employees - Compensation of Directors and Officers.

The remuneration policy also includes a plan for members of the Executive Board to be remunerated partly in stock options or stock appreciation rights. If members of the Executive Board are entitled to stock options or stock appreciation rights, these options and rights are granted solely by reference to our share price on the Euronext Amsterdam at the close of trading on the date of granting thereof. The terms under which stock options and stock appreciation rights are issued will 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 extraordinary dividends. [II.2.4; II.2.5]

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

[II.2.7]

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Messrs Streppel and Wynaendts have mortgage loans established prior to the time they became members of the Executive Board on terms available to personnel as a whole. No material modification or renewal will take place with respect to these loans. [II.2.8]

### **v. Determination and disclosure of remuneration**

Any future material changes to the remuneration policy regarding members of the Executive Board will be submitted to the General Meeting of Shareholders for adoption. [Principle above II.2.9; III.5.10]

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

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

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

### **vi. Conflicts of interest**

Compiled in 2002, after a company-wide collaborative effort, our Code of Conduct addresses conflicts of interest that may occur between AEGON and its employees including the members of the Executive Board.

More detailed regulations regarding conflicts of interest between members of the Executive Board and AEGON are included in the Rules and Regulations of the Executive Board, which are, in all material respects, compliant with the Code and which will be posted on AEGON's website [www.aegon.com](http://www.aegon.com). [II.3; II.3.1; II.3.2; II.3.3; II.3.4]

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

### **vii. Compliance**

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

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**viii. Supervisory Board**

*Role and procedure*

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

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

The Supervisory Board shall continue its existing practice to include a detailed report of its activities in each annual report of the information prescribed in the Code. The report will include appropriate reference to the subjects discussed within the Supervisory Board during the relevant year. [III.1.2; III.1.3; III.1.5; III.1.7; III.1.8; III.3.6]

*Independence*

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

*Expertise and composition*

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

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



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

Several members of the Supervisory Board also serve as a member of Supervisory Boards of other Dutch listed companies. The Supervisory Board has concluded that none of these memberships unduly or negatively influences the proper performance of the relevant members of their duties as member of the Supervisory Board. Mr. Tabaksblat, the chairman of the Supervisory Board, as well as Mr. Storm currently hold more than the maximum number of Supervisory Board positions with Dutch listed companies (including chairmanships) set forth in the Code. Mr. Storm has advised the Supervisory Board that he expects to be compliant with the relevant best practice provision before the end of 2004. Mr. Tabaksblat has indicated he will not be available for reappointment upon the end of his current term in 2005. [III.3.4]

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

Pursuant to the Rules and Regulations of the Supervisory Board a member of the Supervisory

Board must 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 important circumstances. [III.1.4]

### *Role of the chairman of the Supervisory Board and the company secretary*

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

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

### *Composition and role of the key committees of the Supervisory Board*

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

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Each of the committees of the Supervisory Board has a charter in which the duties of the committee, the composition and its internal procedures are laid down. The committee charters will be published on AEGON's website.[III.5.1]

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

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*Audit Committee*

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

*Compensation Committee*

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

*Nominating Committee*

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

*Strategy Committee*

The Strategy Committee, established by the Supervisory Board in 2002, has the task of reviewing the major features of the strategy proposed by the Executive Board and preparing the presentation of the strategy to the Supervisory Board. The Strategy Committee also considers options and alternative avenues with regard to the strategy in addition to considering the material aspects relating to the implementation of the agreed strategy. Finally, it is acting as a consultative body for the Executive Board with regard to its strategy. The Strategy Committee is chaired by Mr. Tabaksblat.

*Conflicts of Interest*

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

### *Remuneration of the members of the Supervisory Board*

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

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### **ix. The shareholders and General Meeting of Shareholders**

#### *Powers*

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

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

The Articles of Incorporation of AEGON currently provide that the General Meeting of Shareholders may cancel the binding character of binding nominations for the appointment of new members to the Supervisory Board and the Executive Board with a majority of two-thirds of the votes cast representing at least one-half of the issued capital. In addition, members of the Executive Board and members of the Supervisory Board can only be dismissed by the General Meeting of Shareholders with the same qualified majority (except if proposed by the Supervisory Board). These provisions were included at the time of the overall review of AEGON's corporate governance and were adopted at the extraordinary General Meeting of Shareholders in May, 2003. This qualified majority requirement was included in order to give AEGON protection against unfriendly actions by, for example, a hostile bidder. The effects of this qualified majority are mitigated by the fact that in practice nominations will in most cases not be binding, thus allowing the shareholders to decide on the nomination with a simple majority. The Supervisory Board and the Executive Board intend to evaluate the provisions in AEGON's Articles of Incorporation containing the qualified majority requirements in light of the provisions of the Code. [IV.1.1; IV.3.9]

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

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

The voting agreement coupled with the minimum voting requirements in AEGON's Articles of Incorporation effectively permit Vereniging AEGON, in the event of a special cause, to temporarily block, for up to six months, any unfriendly actions by a hostile bidder or other. 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 to be taken into consideration when drafting a law on anti-takeover measures.[IV.1.1; IV.1.2; IV.3.9; Account of the Committee's work]



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

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

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

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

### **x. 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. We apply the rules and regulations dealing with disclosure set by the various regulators and the stock exchanges on which we are listed. Meetings with shareholders, analysts and investors and press conferences are webcast on AEGON's website in real time so as to safeguard equal and timely access to information. Meetings will be announced by way of press releases. All presentations made on these occasions are posted on our website. In accordance with market practice, we use various press information services to distribute our press releases. [IV.3; IV.3.1]

All communications and filings are supervised by our Disclosure Committee. These communications will be made available on a separate part of our website [www.aegon.com](http://www.aegon.com). [IV.3; IV.3.6]

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

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

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

the General Meeting of Shareholders). [IV.3.7]

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



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### **xi. Responsibilities of institutional investors**

In addition to AEGON's responsibilities 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 giving due regard to the responsibility to the ultimate beneficiaries and investors in the companies in which it has invested. [IV.4]

In compliance with local Codes of Conduct applicable to institutional investors, AEGON's country units in the United States and the United Kingdom have detailed policies in place in relation to their exercise of the voting rights attaching to the shares held by them. It is the intention of AEGON The Netherlands to publish on its Dutch website, [www.aegon.nl](http://www.aegon.nl), its existing policies regarding the exercise of the voting rights attaching to the shares held by AEGON The Netherlands 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 The Netherlands. A record of whether, and if so, how AEGON The Netherlands has voted as shareholder in General Meetings of Shareholders of Dutch listed companies will also be published on its website. This record will be updated at least on a quarterly basis. [IV.4.1; IV.4.2; IV.4.3]

### **xii. Audit of the financial reporting and the position of the internal auditor function and the external auditor**

#### *Financial reporting*

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

#### *Role, appointment, remuneration and assessment of the function 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 (nonaudit) services that may be rendered by the independent auditor to the Company. [V.2]

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

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

### *Internal Auditor Function*

In 2003, AEGON has appointed an internal auditor on group level reporting directly to the Executive Board. This is in addition to the internal auditors that have been appointed on the level of AEGON's country units. The work

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schedule for the Group Internal Auditor was drawn up with involvement of the Audit Committee and the independent auditor. The findings of the internal auditor are made available to the Executive Board, the Audit Committee as well as the independent auditor. [V.3;V.3.1]

### *Relationship and communication of the external auditor with the Supervisory Board and the Executive Board*

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

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

The independent auditor may request the chairman of the Audit Committee to call a meeting of the Audit Committee. The independent auditor customarily attends the meetings of the Audit Committee. In accordance with applicable laws, the independent auditor reports on its activities to the Executive Board and the Supervisory Board, raising issues in relation to its audit that require the attention of management. Pursuant to the charter of the Audit Committee 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. [V.4.2; V.4.3]

## **6.6 Executive Board**

### **i. Members**

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

Joseph B.M. Streppel (1949), Dutch citizen, 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 citizen, started his career in 1973 as an officer in the Merchant Marine. In 1982 he joined one of the predecessors of AEGON as a district sales manager. From 1987 till 1992 he was chairman of the management board of Spaarbeleg and in 1992 he became a member of the management board of AEGON The Netherlands. As from 2002 he is a member of the Executive Board of AEGON

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N.V. and CEO of AEGON The Netherlands.

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

**Table of Contents****ii. Ownership of AEGON N.V. shares**

At December 31, 2003, members of the Executive Board held an aggregate number of 408,815 AEGON common shares and 1,173,000 options and stock appreciation rights on AEGON common shares.

Stock options, including stock appreciation rights, and interests in AEGON held by active members of the Executive Board are provided in the following table:

	<b>Stock options Balance at January 1</b>	<b>Exercise price EUR</b>	<b>Granted</b>	<b>Exercise price EUR</b>	<b>Lapsed</b>	<b>Stock options Balance at December 31</b>	<b>Exercise price EUR</b>	<b>Shares held in AEGON at December 31</b>
D.J. Shepard	200,000	29.02			200,000			
	200,000	46.95			0	200,000	46.95	
	200,000	34.50			0	200,000	34.50	
	100,000	34.84			0	100,000	34.84	
	50,000 <sub>1</sub>	26.70			0	50,000 <sub>1</sub>	26.70	287,216 <sub>3</sub>
J.B.M. Streppel	50,000	29.02			50,000			
	40,000 <sub>1</sub>	46.95			0	40,000 <sub>1</sub>	46.95	
	40,000	34.50			0	40,000	34.50	
	100,000	34.84			0			