

AEGON NV
Form 20-F
March 31, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from _____ to _____

Commission file number 1-10882

AEGON N.V.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

<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

(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: 1,552,685,053 common shares

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

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

" Item 17 x Item 18

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PRESENTATION OF CERTAIN INFORMATION

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

In this Annual Report on Form 20-F, references to EUR and euro are to the lawful currency of the member states of the European Monetary Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union. References to \$, USD, US\$ and US dollars are to the lawful currency of the United States of America, references to 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, continuing low interest levels and rapidly increasing interest rate 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;

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

customer responsiveness to both new products and distribution channels;

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

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

change in our reported results of operations or financial condition as a result of the adoption by us of International Financial Reporting Standards.

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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, 2004.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the Netherlands (Dutch accounting principles), which differ in certain significant respects from accounting principles generally accepted 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, 2004.

Table of Contents**Consolidated income statement information**

	Years ended December 31,				
	2004	2003	2002	2001	2000
In million EUR (except per share amount)					
<i>Amounts based upon Dutch accounting principles ¹</i>					
Premium income	19,500	19,468	21,356	21,578	20,771
Investment income ⁸	7,152	6,451	6,246	7,995	11,629
Fees and commissions ²	1,244	1,221	978	615	
Total revenues ^{3, 4}	28,513	27,528	29,043	30,665	32,724
Income before tax	2,165	1,193	(315)	2,013	4,856
Net income ^{4, 8}	1,663	1,033	(228)	1,467	4,148
Net income per common share ⁵					
Net income	1.05	0.64	(0.18)	1.04	3.03
Net income, fully diluted	1.05	0.64	(0.18)	1.07	3.11
<i>Amounts based upon US GAAP ^{1, 6}</i>					
Premium income	10,120	10,141	10,191	10,214	7,509
Investment income	7,592	6,448	8,640	11,001	12,773
Total revenues ^{3, 4}	17,972	20,123	19,247	21,599	20,654
Income from continuing operations before tax	2,360	2,286	(841)	1,158	3,492
Net income	1,430	1,531	(2,328)	632	2,716
Net income per common share ⁵					
Basic	0.90	0.97	(1.62)	0.45	1.98
Diluted	0.90	0.97	(1.62)	0.44	1.96

Consolidated balance sheet information

	Years ended December 31,				
	2004	2003	2002	2001	2000
In million EUR (except per share amount)					
<i>Amounts based upon Dutch accounting principles ¹</i>					
Total assets	238,499	233,976	238,206	264,061	244,216
Technical provisions ⁸	196,904	193,805	197,913	220,523	206,097
Long-term liabilities (including current portion)	7,742	7,069	6,480	7,855	6,528
Shareholders' equity ^{7, 8}	14,413	13,947	14,046	15,923	12,844
<i>Amounts based upon US GAAP ^{1, 2}</i>					
Total assets	263,751	267,540	268,316	299,603	281,580
Technical provisions	216,810	212,395	217,022	240,297	225,602
Long-term liabilities (including current portion)	7,742	7,144	7,220	10,462	15,749
Trust pass-through securities (TRUPS) and monthly income preferred stock (MIPS)		408	491	584	553
Shareholders' equity	18,316	17,836	17,554	20,831	18,965
Other					
Life insurance in force	1,188,610	1,150,215	1,244,741	1,248,452	1,163,443
Investment income for the account of policyholders ³	8,484	12,858	(11,524)	(9,515)	(3,495)
Annuity deposits, including GIC/funding agreements ³	14,590	18,568	28,419	26,381	25,506
Share capital	243	238	226	224	215

For notes 1 – 8 see page 6.

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- ¹ Our consolidated financial statements were prepared in accordance with Dutch accounting principles, which differ in certain significant respects from US GAAP. See Note 18.5 to our consolidated financial statements in Item 18 of this Annual Report for information concerning the differences between Dutch accounting principles and US GAAP.
- ² As of 2003, Fees and Commissions are presented separately in the income statement. In prior years, these revenues were included in Investment income.
- ³ Excluded from the income statements prepared in accordance with Dutch accounting principles are receipts related to investment-type annuity products and investment income for the account of policyholders. In addition, universal life-type deposits are excluded from premium revenue in the income statements prepared in accordance with US GAAP.
- ⁴ Foreign currency items in the consolidated income statements have been converted at weighted average rates.
- ⁵ Per share data have been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends and stock splits through December 31, 2004. Diluted per share data give effect to all dilutive securities.
- ⁶ Reflects adjustments made to certain income statement amounts based on US GAAP in 2002 and 2000 and to certain balance sheet amounts based on US GAAP at December 31, 2001.
- ⁷ The figures for 2000 have not been adjusted for the change in accounting for paid dividends to shareholders.
- ⁸ As of January 1, 2004, the following changes of accounting principles were adopted:

Gains and losses on shares and real estate are recognized in the income statement when realized rather than by applying the indirect income method, which amortized gains and losses into income. In accordance with Dutch Accounting Principles, our results for 2000 through 2003 have been adjusted to reflect this accounting change on a consistent basis under Dutch Accounting Principles. The change has no effect on the US GAAP-based amounts.

The Statement of Position (SOP) 03-01, issued by the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants, changed the provisioning for mortality on universal life contracts and for guaranteed living and death benefits on variable annuity and variable life contracts in the United States. The implementation mainly changed the timing of the recognition of mortality profits in earnings. The 2002 and 2003 results based on Dutch Accounting Principles have been adjusted to reflect this accounting change. For the US GAAP-based numbers the cumulative effect of the accounting change has been included in the 2004 numbers.

	2004	2003	2002	2001	2000
In thousands					
Number of common shares					
Balance at January 1	1,514,378	1,444,579	1,422,253	1,350,524	668,426
Stock split					668,426
Issuance of shares				55,000	
Stock dividends	38,307	69,799	22,326	16,484	13,194
Exercise of options				245	478

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Balance at end of period	1,552,685	1,514,378	1,444,579	1,422,253	1,350,524
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AEGON has declared interim and final dividends for the years 2000 through 2004 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 ^{1,4}			USD per common share ^{1,4}		
	Interim	Final	Total	Interim	Final	Total
2000	0.29	0.42	0.71	0.26	0.37	0.63
2001	0.36	0.44	0.80	0.32	0.39	0.71
2002	0.36	0.35 ₂	0.71 ₂	0.35	0.32 ₂	0.67 ₂
2003	0.20	0.20	0.40	0.22	0.24	0.46
2004	0.21	0.21 ₃	0.42	0.26	N/A	N/A

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

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

³ Proposed.

⁴ Dividend per share is adjusted for the 2002 stock dividend.

On August 12, 2004, AEGON declared an interim dividend for 2004 of EUR 0.21 per common share. AEGON has proposed to its annual General Meeting of Shareholders, scheduled to occur on April 21, 2005, that the full year 2004 dividend be set at EUR 0.42 per common share, resulting in a final dividend for 2004 of EUR 0.21 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 3.75% for 2004. Applying this rate to the weighted average paid-in capital of our preferred shares during 2004, the annual dividend on our preferred shares payable for 2004 was EUR 79.5 million. The rate for annual dividends on preferred shares in 2005, as determined on January 3, 2005, is 3.75% and the annual dividend on preferred shares for 2005, based on the paid-in capital on the preferred shares on January 3, 2005, will be EUR 79.5 million.

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3.3 Exchange Rates

Fluctuations in the exchange rate between the euro and the US dollar will affect the dollar equivalent of the euro price of our common shares traded on Euronext Amsterdam and, as a result, are likely to 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.

As of March 17, 2005 the USD exchange rate ¹ was EUR 1 = USD 1.3373

The high and low exchange rates ¹ for the US dollar per euro for each of the last six months through February 2005 are set forth below:

	<u>Sept. 2004</u>	<u>Oct. 2004</u>	<u>Nov. 2004</u>	<u>Dec. 2004</u>	<u>Jan. 2005</u>	<u>Feb. 2005</u>
High (USD per EUR)	1.242	1.278	1.329	1.363	1.348	1.327
Low (USD per EUR)	1.205	1.227	1.270	1.322	1.295	1.277

The average exchange rates ¹ for the US dollar per euro for the five years ended December 31, 2004, 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>
2000	0.9207
2001	0.8909
2002	0.9495
2003	1.1411
2004	1.2478

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

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3.4 Risk Factors

i. Risks relating to our Business

Interest Rate Risk

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

In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may increase and usually do increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments requiring the sale of invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. These cash payments to policyholders result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also 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 we may be required to reinvest the proceeds in securities bearing lower interest rates. Also, in a period of low interest rates, we may not be able to reduce crediting rates on policies and still preserve margins as a result of minimum guaranteed crediting rates provided on policies. Accordingly, during periods of sustained low interest rates, net income may decline as a result of a decrease in the spread between either the interest rates credited to policyholders or the rates assumed in reserves and returns on the investment portfolio.

The profitability of spread-based business depends in large part upon the ability to manage interest rate spreads, credit risk and other risks inherent in the investment portfolio. We may not be able to successfully manage interest rate spreads or the potential negative impact of those risks. Investment income from general account fixed income investments for the years 2002, 2003 and 2004 was EUR 7.3 billion, EUR 6.4 billion and EUR 6.1 billion, respectively. The value of the related general account fixed income investment portfolio at the end of the years 2002, 2003 and 2004 was EUR 115 billion, EUR 106 billion and EUR 107 billion, respectively.

See Item 11, "Quantitative and Qualitative Disclosure about Market Risk", of this Annual Report for a detailed sensitivity analysis discussion.

Credit Risk

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

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As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, we typically bear the risk for investment performance return of principal and interest. We are exposed to credit risk on our 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

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downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in our major markets resulted in significant investment impairments on our investment assets due to defaults and overall declines in the securities markets. Although credit default rates were moderate in 2004, a reversion to excessive defaults, or other reductions in the value of these securities and loans, could have a material adverse effect on our business, results of operations and financial condition.

Equity Market Risk

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

Fluctuations in equity markets have adversely affected our profitability, capital position and sales of equity related products in the past and may do so in the future. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investment where we bear all or most of the volatility in returns and investment performance risk. Significant terrorist actions, as well as general economic conditions, have led to and may continue to result in significant decreases in the value of our equity investments. In 2002, 2003 and 2004, declines in equity securities held in the general account resulted in the recognition of impairment losses of EUR 1,057 million, EUR 273 million and EUR 25 million, respectively.

Some products sold by AEGON contain minimum return or accumulation guarantees. We are at risk if equity market returns do not exceed these guarantee levels and may need to set up additional reserves to fund these future guaranteed benefits. We are also at risk if returns are not sufficient to allow amortization of deferred policyholder acquisition costs. It is possible under certain circumstances that we would need to accelerate amortization of DPAC and to establish additional provisions for minimum guaranteed benefits, which would reduce net income and shareholders' equity. Volatility or poor market conditions may also significantly reduce the popularity of some of our savings and investment products, which could lead to lower sales and net income. During 2002, 2003 and 2004, we recognized accelerated amortization of deferred policy acquisition costs of EUR 450 million, EUR 129 million and EUR 39 million and increased provisions for products with guaranteed minimum benefit provisions by EUR 482 million, EUR 52 million and EUR 50 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 used in setting the prices for products and establishing the technical provisions and liabilities for claims. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a trend, we may be required to increase our liabilities, which may reduce income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the balance sheet and are being amortized into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs could be accelerated and may require write-offs due to unrecoverability. This could have a material adverse effect on our business, results of operations and financial condition.

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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. Also, currency risk exists for any policy denominated in currencies other than the policy's local currency. In the Netherlands, AEGON invests the majority of its equity holdings in an internationally diversified portfolio, rather than solely in Dutch equities. Equity held in subsidiaries is kept in local currencies to the extent shareholders' equity is required to satisfy regulatory and self-imposed capital requirements. Because of this, currency exchange rate fluctuations may affect the level of shareholders' equity as a result of translation into euro. AEGON holds the remainder of its capital base (capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of its country units. This balancing mitigates currency translation impacts to equity and leverage ratios. Currency risk in the investment portfolios is managed using asset liability matching principles. AEGON does not hedge the income streams from the main non-Euro units and, as a result, earnings may fluctuate due to currency translation. As 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 net income and shareholders' equity because of these fluctuations.

For the Americas segment (which primarily conducts its business in US dollars), total revenues and net income in 2004 amounted to EUR 14.7 billion and EUR 1,262 million, respectively. For the United Kingdom segment (which primarily conducts its business in UK pounds), total revenues and net income in 2004 amounted to EUR 6.2 billion and EUR 156 million, respectively. On a consolidated basis, these two segments represented 73% of the total revenues and 85% of the net income for the year 2004. Additionally, we borrow in various currencies to hedge the currency exposure arising from its operations. At December 31, 2004 we have borrowed amounts in proportion to the currency mix of capital in units, which was denominated approximately 61% in U.S. dollars, 20% in Euro, 15% in UK pounds and 4% in Canadian Dollars.

Liquidity Risk

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

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

Illiquid assets amounted to EUR 38.0 billion or 31% of general account investments at the end of 2004 (EUR 40.5 billion, or 33% in 2003). Investment income from these assets amounted to EUR 3.1 billion, EUR 2.5 billion and EUR 2.3 billion, representing 50%, 39% and 32% of total general account investment income for the years 2002, 2003 and 2004, respectively. AEGON realized impairment losses of EUR 217 million, EUR 220 million and EUR 72 million on these assets in the years 2002, 2003 and 2004, respectively.

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

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

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

	<u>S&P rating</u>	<u>S&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	Stable	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 securities. Changes in existing insurance laws and regulations may affect the way in which we conduct business and the products offered. Changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may adversely affect our ability to sell new policies or claims exposure on existing policies. Additionally, the insurance laws or regulations adopted or amended from time to time may be more restrictive or may result in higher costs than current requirements.

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

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

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AEGON may be unable to manage its risks successfully through derivatives

AEGON is exposed to currency fluctuations, changes in the fair value of its investments, the impact of interest rate and credit spread changes and changes in mortality and longevity. AEGON uses common financial derivative instruments such as interest rate swaps, options, futures and forward contracts to hedge some of the exposures related to both investments backing insurance products and company borrowings. AEGON may not be able to manage the risks associated with these activities successfully through the use of derivatives. In addition, a counterparty may fail to honor the terms of its derivatives contracts with us. Our inability to manage risks successfully through derivatives or a counterparty's failure to honor its obligations 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 subsidiaries of AEGON NV, thereby limiting the ability to make payments on debt obligations

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

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

Our 2004 financial statements have been prepared and presented in accordance with Dutch accounting principles. Any change in these accounting principles, such as the conversion to IFRS as of January 1, 2005, may have a material impact on our reported results, financial condition and shareholders' equity, including the level and volatility of reported results and shareholders' equity.

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 other products, including group savings products. Any changes in United States or Dutch tax law affecting products could have a material adverse effect on AEGON's business, results of operations and financial condition.

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. Consolidation in the global financial services industry can enhance the competitive position of some of our competitors by broadening the range of their products and services, and increasing their distribution channels and their access to capital. In addition, development of alternative

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

AEGON USA ranked third in individual term life sales, fifth in individual universal life sales (source: LIMRA survey for nine months ended September 30, 2004) and tenth in variable life sales (source: Tillinghast-Towers Perrin Variable Life survey for nine months ended September 30, 2004). AEGON USA ranked fourth in sales of fixed annuities sold through banks, sixteenth in variable annuity sold through banks (source: Kenneth Kehr report for six months ended June 30, 2004) and first in synthetic Guaranteed Investment Contracts (source: LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2003 Fourth Quarter Sales, IMD Market Research). Our major competitors in the United States include AIG, Hartford, ING, Metropolitan, Manulife, Jefferson Pilot, Nationwide and Prudential.

In Canada, AEGON ranks second in the universal life market, third in the traditional life market based upon new sales (source: LIMRA International Canadian Individual Life Insurance Sales, Year to Date Reports for the third quarter of 2004) and third in the segregated funding insurance market based upon assets (source: Investor Economics Insight October 2004). AEGON's primary competitors in Canada are AIG, Clarica, Great West Life, Industrial Alliance, Manulife and Sun Life. In the Netherlands, AEGON is the second largest life insurer based on gross life premium income. AEGON's major competitors include ASR Fortis, Delta Lloyd, ING and Interpolis. 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 three key sources: life and pension companies, investment management houses and independent financial adviser firms. AEGON's key competitors in the United Kingdom life and pension market are Aviva, AXA, Friends Provident, Prudential UK and Standard Life. AEGON's main competitors in the UK retail investment market are typically the investment management houses (e.g., Fidelity, Henderson, Merrill Lynch etc). The independent financial adviser market is fragmented, with a large number of relatively small firms. In Hungary, AEGON's major competitors include Allianz, Generali-Providencia, ING and OTP-Garancia.

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

As a global financial services enterprise with a decentralized management structure, AEGON relies, to a considerable extent, on the quality of local management in the various countries in which AEGON operates. The success of AEGON's operations is dependent, among other things, on AEGON's ability to attract and retain highly qualified professional personnel. Competition for key personnel in most countries in which AEGON operates is intense. AEGON's 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 AEGON 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, AEGON's 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 AEGON, its affiliates, directors, officers or any expert named therein, who reside outside the United States, based upon the U.S. federal securities laws.

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

AEGON's insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse for the ceded amount in the event the claim is paid. However, AEGON's insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. See Item 18, Financial Statements Schedule to Financial Statements Reinsurance, of this annual report for a table showing life insurance in force amounts on a direct, assumed and ceded basis for 2002, 2003 and 2004. 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 42% of AEGON's total direct and assumed (for which AEGON acts 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 Clarica Life Insurance Company, European Re of Zurich, Manulife Reinsurance Limited, Munich American Reassurance Company, RGA Reinsurance Company, Security Life of Denver and Swiss Re. AEGON Canada's major reinsurers are Munich Re, Swiss Re and RGA Reinsurance Company. The major reinsurers of AEGON UK include GE Frankona and Swiss Re. The major reinsurers for non-life insurance for AEGON The Netherlands are GE Frankona, Partners Re and Swiss Re. The major reinsurers of AEGON Hungary are Swiss Re and Munich Re. AEGON Spain's major reinsurers are GE Frankona, General Re, Munchener and Nacional.

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

In recent years we have made a number of acquisitions and divestitures around the world and may make further acquisitions and divestitures in the future. Growth by acquisition involves risks that could adversely affect our operating results and financial condition, 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 us assuming or retaining certain contingent liabilities. All of the foregoing could materially adversely affect our businesses, results of operations and financial condition. Future acquisitions may also have a dilutive effect on the ownership and voting percentages of existing shareholders. There can be no assurance that we will successfully identify suitable acquisition candidates or that we will properly value acquisitions made. We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed once negotiations have commenced.

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Catastrophic events, which are often unpredictable by nature, could result in an abrupt and significant interruption of AEGON's business activities and significant losses.

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

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

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

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

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

ii. Risks Relating to AEGON's Common Shares

Our share price could be volatile and could drop unexpectedly, and investors may not be able to resell our common shares at or above the price 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 AEGON and its operations and some of which will be related to the insurance industry and equity markets in general. As a result of these factors, investors may not be able to resell their common shares at or above the price paid for them. In particular, the following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of AEGON's common shares:

investor perception of AEGON as a company;

actual or anticipated variations in AEGON's revenues or operating results;

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

changes in AEGON's dividend policy, which could result from changes in AEGON's cash flow and capital position;

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

a downgrade or rumored downgrade of AEGON's credit or financial strength ratings, including placement on credit watch;

potential litigation involving AEGON or the insurance industry in general;

changes in financial estimates and recommendations by securities research analysts;

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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, Canada, the United Kingdom and Other Countries;

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

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

general market conditions.

The high and low sales prices of AEGON's common shares on Euronext Amsterdam were EUR 13.47 and EUR 5.87 respectively in 2003 and EUR 12.98 and EUR 8.24 respectively in 2004. The high and low sales prices of our common shares on the NYSE were USD 14.80 and USD 6.76 respectively in 2003 and USD 16.12 and USD 10.41 respectively in 2004. All share prices are closing prices.

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

It is possible that AEGON may decide to offer additional common shares in the future, for example to effect an acquisition. In connection with Vereniging AEGON's refinancing in September 2002, it entered into an equity repurchase facility (Repo Facility) and a back-up credit facility (Back-up Facility). 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, 2004, the total authorized share capital of AEGON consisted of 3,000,000,000 common shares, par value euro 0.12 per share, and 1,000,000,000 preferred shares A and B, par value euro 0.25 per share. All our outstanding common shares are freely tradable, and all shareholders, including large shareholders such as Vereniging AEGON, are free to resell their shares at any time.

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

Prior to September 2002, Vereniging AEGON, our major shareholder, beneficially owned approximately 52% of the voting shares and thus held voting control over AEGON. In September 2002, Vereniging AEGON reduced its beneficial ownership to approximately 33% of the voting shares (excluding issued common shares held in treasury by AEGON). Pursuant to the 1983 Merger Agreement between AEGON and Vereniging AEGON, as amended, Vereniging AEGON, in case of an issuance of shares by AEGON, may purchase as many class B preferred shares as would enable it to prevent or correct a dilution to below its actual percentage of the voting shares. The option granted to Vereniging AEGON permits it to purchase class B preferred shares up to a maximum of the non-issued part of the class B preferred shares included from time to time in AEGON's authorized capital if necessary to prevent or correct such dilution. The class B preferred shares will then be issued at

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par value (euro 0.25), unless a higher price is agreed. In 2003, Vereniging AEGON exercised its option rights to purchase in aggregate 11,100,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances and treasury stock sales during the year. In 2004, Vereniging AEGON exercised its option rights to purchase in aggregate 5,800,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances and treasury stock sales during the year.

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In addition, we have implemented certain changes to our corporate governance structure and the relationship with Vereniging AEGON pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Consequently, under normal circumstances Vereniging AEGON's voting power, based on the current numbers of outstanding and voting shares, was reduced to approximately 22.8% of the votes exercisable in the General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances at the sole discretion of Vereniging AEGON (such as the acquisition of 15% of the voting shares, a tender offer for shares or a proposed business combination, each by any person or group of persons whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging AEGON's voting rights will for a limited period of 6 months increase to a percentage, currently amounting to 32.35%. Consequently, Vereniging AEGON may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

adopting amendments to the Articles of Incorporation;

adopting the annual accounts;

approving a consolidation or liquidation;

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

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

- (1) rejecting binding Supervisory Board nominations for membership on the Supervisory Board and Executive Board;
- (2) appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination; and
- (3) suspending or removing an Executive Board or Supervisory Board member other than pursuant to a Supervisory Board proposal.

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

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

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

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

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Item 4. Information on the Company

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 one of the world's leading listed life insurance companies ranked by market capitalization (source: Datastream) and assets at December 31, 2003 (source: The Wall Street Journal, September 27, 2004). AEGON is headquartered in the Netherlands and employs about 27,000 people worldwide. AEGON's common shares are listed in Amsterdam (Euronext), New York (NYSE), Frankfurt, London, Tokyo and Zurich (SWX).

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

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

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

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

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

Our headquarters are located at:

AEGONplein 50

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ii. Strategy

Commitment to core business

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

Decentralized organization

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

Emphasis on profitability

AEGON aims to achieve a long-term average growth of net income of 10% per annum. The minimum return on investment is set to earn adequate returns well in excess of the cost of capital on the pricing of new business and acquisitions. Divestment of non-core and structurally underperforming activities, as well as disciplined expense management, are key to achieving these objectives.

Market position

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

International expansion

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

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iii. Recent Developments and Capital Expenditures and Divestments

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

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

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

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

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

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

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

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4.2 Business Overview

i. Product-line Overview

General Account

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

Traditional Life. Traditional life products contributed 33% of AEGON's Line of Business result in 2004 (41% in 2003 and 68% in 2002). Line of Business result represents income before realized gains and losses excluding interest charges and other. Traditional life consists largely of permanent and term life insurance. These products are marketed to individuals, pension funds, companies and banks, through (independent) agents, brokers, direct response, worksite marketing and financial institutions in the United States, the Netherlands, the United Kingdom, Canada, Hungary, Slovakia, Spain, Taiwan and China.

Permanent life insurance provides life-long financial protection. Most permanent policies have a cash value feature with a minimum rate guarantee that accumulates tax-deferred over the life of the policy and can be used to help fund financial goals, particularly in retirement. A customer may either withdraw the cash value subject to 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 in which 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 as to when to pay premiums and with regard to the amount of the premiums, subject to a minimum and a maximum. For universal life products, the more the customer elects to pay 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 in which the crediting rate is tied to the change, whether positive or negative, in a designated stock market index. There is no minimum interest for indexed universal life.

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

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

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

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Fixed Annuities. Fixed annuities contributed 14% of AEGON's Line of Business result in 2004 (15% in 2003 and 3% in 2002). Fixed annuities are marketed to individuals and pension funds through financial institutions, (independent) agents and brokers in the United States and Canada and through direct response in the United States.

A fixed annuity is an annuity contract for consumers offering discretionary crediting rates as well as minimum guarantee surrender values and payout options. The fixed annuity products AEGON USA offers include deferred or immediate annuities, which may be purchased on either a flexible or single premium basis. An immediate annuity is purchased with a single lump sum premium payment and the benefit payments generally begin within a year after the purchase. Deferred annuities are offered on a fixed or indexed basis with the option of liquidating the contract at any time after the purchase. Upon maturity of the annuity, the customer can select payout options, including a lump sum payment or income for life, as well as payment for a specified 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 crediting rate that can be reset periodically by AEGON.

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

In the United States, AEGON sells 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 which is provided by AEGON after the annuities are sold.

Guaranteed Investment Contracts and Funding Agreements. Guaranteed Investment Contracts (GICs) and Funding Agreements (FAs) contributed 9% of AEGON's Line of Business result in 2004 (9% in 2003 and 14% in 2002). GICs and FAs are marketed only to institutional investors such as pension funds, retirement plans, college savings plans, money market funds, municipalities and U.S. and overseas investors. GICs are primarily sold to tax qualified plans while FAs are typically sold to non-tax qualified institutional investors. The products are marketed through an internal sales force in the United States and internationally.

GICs and FAs are spread-based products that are generally issued on a fixed or floating rate basis and provide the customer a guarantee of principal and a specified rate of return. For some of the products, the customer receives a return based on a change in a published index, such as the S&P 500. The term of the contract can be fixed (primarily from 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.

AEGON utilizes consolidated special purpose entities linked to medium term notes or asset-backed commercial paper for the issuance of certain funding agreements. Under these programs, the proceeds of each note series or commercial paper issuance are used to purchase a funding agreement from an AEGON insurance company, which is used to secure that particular series. The payment terms of any particular series substantially match the payment terms of the funding agreement that secures that series.

Products for the Account of Policyholders

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

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Life Products for the Account of Policyholders. Life products for the account of policyholders contributed 16% of AEGON's Line of Business result in 2004 (13% in 2003 and 26% in 2002). These products are sold to individuals through (independent) agents, marketing organizations, financial institutions, worksite marketing, franchise organizations and brokers in the United States, the Netherlands, the United Kingdom, Hungary, Slovakia, Spain, Taiwan and China.

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), unit-linked, pensions and unitized with-profits life insurance (UK, Hungary, Spain and Taiwan).

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

Tontine plans (the Netherlands) are linked pure endowment savings contracts with a specific bonus structure. Policyholders can choose from several AEGON 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 unrecovered 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 amount is at least equal to the premiums paid, provided the Mix-fund was chosen for investing premiums.

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

Variable Annuities. Variable annuities contributed 7% of AEGON's Line of Business result in 2004 (3% in 2003 and 35% in 2002). Variable annuities are sold to individuals and pension funds through (independent) agents, marketing organizations, brokers and financial institutions in the United States, Canada and Taiwan.

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

Premiums paid on variable annuity contracts are invested in funds offered by AEGON and other third party providers, including bond and equity funds, and selected by a client based on the client's preferred level of risk. The assets and liabilities related to this product are legally segregated for the benefit of particular policyholders in separate accounts of the insurance company (classified as investments for the account of policyholders). Various riders are available on variable annuity contracts, providing guaranteed minimum death, maturity withdrawal or income benefits.

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The account value of the variable annuities reflects the performance of the funds. AEGON earns mortality and expense charges as well as various types of rider fees for providing various forms of guarantees and benefits, including guaranteed death and income benefits. This category includes segregated fund products offered by AEGON Canada.

Fee Business. Fee business contributed 2% to AEGON's Line of Business result in 2004 (0.3% in 2003 and 0.0% in 2002). Products are sold to individuals, pension funds, asset managers through (independent) agents, marketing organizations, financial institutions and direct marketing in the United States, Canada, the Netherlands, the United Kingdom, Hungary and Slovakia.

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

corporate defined benefit plans;

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

not-for-profit organizations qualifying for tax qualified annuities under section 403(b) of the US Internal Revenue Code; 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 operations in the United States provide the fund manager oversight for the Transamerica IDEX Mutual Funds (AEGON USA's mutual funds) and Diversified Investors Funds Group family of mutual funds. AEGON builds alliances with investment companies and selects and retains external managers based upon performance from a variety of investment firms. The external manager remains with the investment company and acts as a sub-advisor for AEGON's mutual funds. AEGON earns investment management fees on these investment products.

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

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

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

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

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

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

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

Accident and Health Insurance. Accident and health insurance contributed 13% of AEGON's Line of Business result in 2004 (15% in 2003 and 19% in 2002). Accident and health products are sold to individuals and companies through (independent) agents, brokers and direct marketing in the United States, Canada, the Netherlands, Spain (until the end of 2004) and Hungary.

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

Long-term care products offered by AEGON USA provide benefits to customers who, because of their advanced age or a serious illness, require continuous care. Long-term care policies offered include nursing home coverage, home health care, assisted living and adult day-care services and protect the insured's income and retirement savings from the costs of long-term nursing home or home health care. Sales of long-term care insurance by the Long-term Care Division within AEGON USA will be discontinued in 2005, as announced in 2004.

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

General Insurance. General insurance contributed 5% of AEGON's Line of Business result in 2004 (3% in 2003 and 4% in 2002). General insurance is sold to individuals and companies through (independent) agents and brokers in the Netherlands and Hungary. AEGON announced in December 2004, that it sold its non-life business in Spain with effect from January 1, 2005.

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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 1% of AEGON's Line of Business result in 2004 (0.7% in 2003 and 1% in 2002) and are only sold by AEGON the Netherlands. Distribution channels are direct marketing, (independent) agents and franchise organizations.

AEGON's banking products include savings accounts and investment contracts. 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.

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 (De Nederlandsche Bank, or DNB) are, as lead supervisors, also required to carry out supplementary supervision. The supplementary supervision of insurance companies in an insurance group enables the lead supervisors to make a detailed assessment of the financial position of the insurance companies that are part of that group. The Directive requires the DNB to take into account the relevant financial affiliations between the insurance companies and other entities in the group. In this respect, AEGON is required to submit reports to the DNB twice a year setting out all the significant transactions and positions between the insurance and non-insurance companies in the AEGON Group.

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

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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. The companies operating in the US are collectively referred to as AEGON USA.

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

Total employment of AEGON USA as of December 31, 2004 was 13,356, including 4,754 agents. Total employment of AEGON Canada was 673 as of December 31, 2004.

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

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

Life Investors Insurance Company of America;

Monumental Life Insurance Company;

Peoples Benefit Life Insurance Company;

Stonebridge Casualty Insurance Company;

Stonebridge Life Insurance Company;

Transamerica Financial Life Insurance Company, Inc.;

Transamerica Life Insurance & Annuity Company;

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Transamerica Life Insurance Company;

Transamerica Occidental Life Insurance Company;

Veterans Life Insurance Company; and

Western Reserve Life Assurance Co. of Ohio.

The operations in the United States (carried out by the collective group of operating companies in the United States) primarily sell life insurance products. AEGON's operations in the United States also sell accident and health insurance, but made the strategic decision to move away from primary health coverage a number of years ago to concentrate health operations in the supplemental coverage sector. The majority of earnings contributions from AEGON's operations in the United States are derived from traditional life products.

Operationally, AEGON's subsidiary companies in the United States contain five operating groups 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 the organization more efficiently and to identify business synergies, pursue cross-selling opportunities and improve operating efficiencies. Coordinated support services provide expertise in systems technology, investment management, regulatory compliance and various corporate functions to complement operations. Products are offered and distributed through one or more of the AEGON USA licensed insurance or brokerage subsidiary companies. The divisions referenced below are part of those subsidiary companies.

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ii. Products and Distribution

Agency Group

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

AEGON Financial Partners;

Life Investors Career Agents/Independent Producers Group;

Intersecurities, Inc.;

Transamerica Insurance & Investment Group;

World Financial Group;

Monumental Division;

Long-term Care Division; and

Transamerica Worksite Marketing.

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

Life Investors Career Agents/Independent Producers Group targets middle to upper-income markets, selling primarily interest-sensitive and ordinary life insurance. Life Investors provides support to establish new agencies and has provided its more than 2,000 agents with quality products, technology tools, and a high level of home office training and support. During the past few years, the Independent Producers Group has seen growth in both recruiting and sales. This unit, which is focused on developing relationships with independent marketing organizations and managing general agents throughout the United States, has grown to nearly 20,000 independent agents.

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Intersecurities, Inc. (ISI) is a fully licensed, independent broker-dealer and registered investment advisor. ISI's 1,500 registered representatives are focused on helping clients meet their investment objectives through an array of financial products, including mutual funds, fixed and variable life insurance, annuities, and securities. ISI is positioning itself for growth by building an internal wholesaling unit for life products within already existing channels and leveraging the wholesaling expertise of its affiliate, Transamerica Capital, Inc., for variable products.

Transamerica Insurance & Investment Group (TIIG) distributes term, fixed and variable life insurance and equity products to its targeted niche market of older, affluent individual customers and small to mid-sized businesses. TIIG's primary distribution channels are 465 general agencies and over 70,000 agents. Sales of TIIG's variable products are supported by a network of broker-dealers, including the broker-dealer channel, which includes Transamerica Financial Advisors, Inc., an affiliated broker-dealer with over 1,000 representatives. TIIG has a National Accounts initiative for its fixed and variable products, focusing on establishing and maintaining business relationships with key national accounts and driving marketing programs aimed at increasing production from sales representatives. TIIG has developed relationships with a number of distribution groups, which solely focus on this market. Those groups are Time Financial and a newly formed group called The Plan Group.

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

Monumental Division targets the lower and middle-income markets, selling individual traditional life and supplemental health insurance through three distinct distribution systems: Career Agency, PreNeed and Military. Approximately 2,700 agents in 22 states reflect the diversity found in the communities they serve. The career agents provide face-to-face service to the policyholders. The 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 1980s and was integrated with the Transamerica Long-term Care operations. Products are sold directly through independent brokerage agents, captive/career agents and general agents. Sales of long-term care insurance in this Division will be discontinued in 2005, as announced in 2004.

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

Direct Marketing Services Group

AEGON Direct Marketing Services (ADMS) is focused on customers that might not be reached by AEGON USA's other distribution channels, or might prefer to buy insurance products directly and not through an agent or intermediary. ADMS has developed a highly targeted approach using sophisticated database technology to increase its ability to develop niche markets and design products positioned to meet specific customers' needs. Customers can purchase an extensive portfolio of products through direct mail, point-of-service, internet and telemarketing. Products are also marketed using the endorsement of sponsoring organizations such as financial institutions, auto dealers and various membership associations.

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

Financial Markets Group

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

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Transamerica Capital Inc. (TCI) works in partnership with many of the largest banks, national and regional broker dealers and financial planners in the United States to market fixed and variable annuities, mutual funds, 401(k) plans and life insurance. The bank distribution channel is particularly important to AEGON USA. Working closely with its partners, AEGON USA seeks to customize products and support to help banks expand their relationship with their customers.

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

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

Institutional Products and Services Group

The Institutional Products and Services Group includes AEGON Institutional Markets and Transamerica Reinsurance 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 IMD holds the leading market position (source: reports of LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2003 Fourth Quarter Sales, IMD Market Research). IMD has been able to enhance its leadership position through product customization, strong service capabilities and profitable underwriting. IMD's skills in product development, distribution and investment and risk management have resulted in a diversified customer and market base and multi-channel distribution. Building on these skills, IMD is also responsible for a new Structured Products group (SP). SP is generally involved in capital markets transactions such as writing credit default swaps, undertaking synthetic collateralized debt obligations, and providing guarantees of affordable housing tax credits. IMD also administers AEGON's block of structured settlement pay-out annuities business. New sales for this product were discontinued in 2003.

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

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Pension Group

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

Diversified Investment Advisors (Diversified) is a registered investment advisory firm dedicated exclusively to retirement plan management. Diversified provides a customized approach to retirement plans, which includes comprehensive investment, administrative and technical services for 401(k), section 403(b) of the Employee Retirement Income Security Act of 1973, as amended (ERISA), defined benefit, profit sharing, money purchase, NQDC, and 457(b) plan types. Diversified provides retirement products and services for the mid- to large-sized pension market, which includes companies with between 250 and 100,000 employees and pension assets between USD 5 million and USD 1 billion. These products and services are sold through a variety of intermediaries, including benefit consulting firms, broker/dealers, agents and brokers.

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

iii. Asset Liability Management

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

The key investment strategy for traditional insurance-linked portfolios is asset liability management, whereby predominately high-quality investment assets are matched in an optimal way to the corresponding insurance liability, 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

AEGON USA reinsures portions of its life insurance exposure with unaffiliated insurance companies under traditional indemnity, quota share reinsurance contracts and, in some instances, excess loss reinsurance. Such reinsurance arrangements are in accordance with standard reinsurance practices within the industry. AEGON USA enters into these arrangements to assist in diversifying its risks and to limit the maximum loss on risks that exceed policy retention limits. The maximum retention limit on any one life is generally USD 500,000 with certain companies retaining up to USD 3,000,000. AEGON USA remains contingently liable with respect to the amounts ceded if the reinsurer fails to meet the obligations it assumed. To minimize its exposure to reinsurer insolvencies, AEGON USA annually monitors the creditworthiness of its primary reinsurers, and has experienced no material reinsurance recoverability problems in recent years. Where deemed appropriate, additional protection is arranged through letters of credit or trust arrangements and for certain arrangements funds are withheld for investment by the ceding company. AEGON USA insurance subsidiaries also enter into reinsurance contracts with affiliated domestic and offshore companies. These have been eliminated in the consolidated statements, except for certain arrangements that involve producer profit-sharing arrangements.

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.

Significant price competition exists for sales through brokerage distribution and sales to older and more affluent markets. AEGON USA attempts to balance return and sales growth requirements when offering traditional life products to these markets. Main competitors in this market are Manulife, Pacific Life, Sun Life, Travelers.

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. Main competitors in this market are Fidelity and Guaranty, Chase Life, AIG as well as small niche carriers who have recently entered this marketplace.

AEGON USA markets variable universal life, mutual funds and variable annuities to middle income clients with equity investment objectives. Main competitors in this market are Pacific Life, ManuLife, Met Life and Prudential.

The current low interest rate environment coupled with a flattening of the yield curve makes the sale of a fixed annuity difficult to compete with a certificate of deposit. AEGON USA has built long-term relationships with many institutions and these relationships have enabled AEGON USA 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 (GMIB) early in 2003. A new product was introduced in late 2004 with living benefit guarantees, which utilizes certain asset allocation portfolios and is the most recent 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.

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In the institutional product market, AEGON USA's competitors include insurance companies, domestic and foreign banks and 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 banks, and other capital market sectors.

AEGON USA believes it is the leading issuer of synthetic GICs (source: reports of LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2004 Fourth Quarter Sales, IMD Market Research). AEGON Institutional Markets Division (IMD) pioneered the use of synthetic GICs in 1991 and competes against banks such as Bank of America, Caisse Des Depots at Consignations (CDC), JP Morgan, Rabobank, State Street Bank and Union Bank of Switzerland. IMD is also among the top ten traditional GIC providers. Other insurers in the traditional GIC segment include John Hancock, Metropolitan Life, Principal Financial, Prudential and New York Life (source: reports of LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2004 Fourth Quarter Sales, IMD Market Research).

Funding agreement-backed medium-term notes are marketed by AEGON in the U.S. and abroad. Monumental Life Insurance Company, the funding agreement issuing insurance company, is among the top ten issuers in this fast-growing segment (source: Standard & Poor's Funding Agreement Backed-Note Issuance for 2004 totals USD 37.6 billion, publication date January 10, 2004). AIG, Allstate, Jackson National, John Hancock, Metropolitan Life, Principal Financial and Pacific Life also have leading positions.

AEGON USA holds a leadership position (source: Edgar Pro/SEC, iMoneynet, IMD Market Research) among issuers of floating rate funding agreements sold primarily to money market funds. Other leading competitors in this market are Allstate, GE Financial, Metropolitan Life, New York Life and Travelers.

IMD manages a book of USD 5 billion to USD 5.5 billion (book value) funding agreements issued to municipalities. The leading competitors in the municipal GIC market are AIG, Ambac, Bayerische Landesbank, GE Capital, Hypo Bank and MBIA.

The life reinsurance segment continues to experience consolidation and market exits with fewer than 10 major reinsurers currently operating. While no shortages exist, diminished capacity has eased competitive pressures. Pricing has stabilized and reinsurers are more conservative with new pricing and more aggressive in negotiating inforce treaties. Facing less of a buyer's market, ceding companies are maintaining their existing pools or readjusting pools in response to consolidation, concentration of risk or rating agency downgrades of pool participants. Demand remains strong for reinsurance products in the United States related to term and universal life policies due to regulatory reserve requirements (Guidelines XXX and AXXX). Current conditions favor large, financially strong reinsurers due to increased due diligence on the part of cedants, the need to access capital markets for reserve credit collateral and the demand for value-added products and services.

Transamerica Reinsurance is among the top professional life and annuity reinsurers in the U.S., ranking fourth in 2004 in assumed new life business and fourth in 2004 in life reinsurance in-force (source: 2004 Munich Re report on U.S. life reinsurers). It is a market leader in annuity reinsurance / structured solutions based on annuity reserves (source: Thomson Financial, July 2004, Schedule S, Part 1 & Part 3, Section 1). The main competitors for Transamerica Reinsurance are Swiss Re, Reinsurance Group of America, Scottish Re 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 assisted if growth continues, technology improves and process management increases efficiency.

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AEGON USA 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, Mass Mutual, New York Life 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 ING.

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 continue to increase 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 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 have seen a reduction in their telemarketing efforts because of the revised FTC and FCC rules.

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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.

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

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 regulations have included matters relating to so-called producer compensation arrangements, revenue sharing, market timing, late trading and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. In addition, certain industry practices in respect of market conduct have been the subject of recent investigations by various state regulators. We, like other companies in the financial services industry, have received inquiries, examinations and requests for information from regulators and others relating to our historical and current practices with respect to these and other matters. Some of those have lead to formal investigations. We are cooperating with these regulatory agencies and are responding to those information requests. New rules and regulations governing such matters may be implemented.

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. Transamerica International Re (Bermuda) Ltd. is subject to the laws and regulations governing reinsurance business in Bermuda, as overseen by the Bermuda Monetary Authority.

Transamerica International Reinsurance Ireland Limited is subject to the laws and regulations governing reinsurance business in Ireland, as overseen by the Irish Financial Services Regulatory Authority.

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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.

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 counseling services.

The primary operating companies that comprise ACI are:

Transamerica Life Canada;

Money Concepts (Canada) Limited;

AEGON Dealer Services Inc.;

AEGON Capital Management Inc.; and

AEGON Fund Management Inc.

Products and distribution. Transamerica Life Canada (TLC) offers term and tax-sheltered universal life insurance, segregated funds, guaranteed interest accounts and annuities. Money Concepts (Canada) Limited (MCC) is an independent Canadian financial planning company with an association of franchised planning centers, offering a diverse spectrum of planning, products and services to investors. With 77 offices across Canada, MCC is the only franchised financial planning company in Canada. AEGON Dealer Services Inc. (ADSCI) provides advisors and

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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.

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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.

Regulation. TLC is incorporated under the Canadian Business Corporation Act and is regulated by the laws established in the Insurance Companies Act of Canada. In addition, TLC is subject to the laws, regulations and insurance commissions of each of Canada's ten provinces. The laws of these jurisdictions generally establish supervisory agencies with broad administrative powers relative to granting and revoking licences to transact business, regulating trade practices, licensing agents, establishing reserve requirements, determining permitted investments and establishing minimum levels of capital. TLC's ability to continue to conduct its insurance business is dependent upon the maintenance of its licenses, 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 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. is the holding company for the Group's Dutch insurance and banking activities. AEGON's operations in the Netherlands are collectively referred to as AEGON The Netherlands.

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

Total employment of AEGON The Netherlands as of December 31, 2004 was 5,810, including 1,473 agents.

The primary operational subsidiaries in the Netherlands are:

AEGON Levensverzekering N.V.;

AEGON Schadeverzekering N.V.;

AEGON Nabestaanden Zorg N.V.;

AEGON Spaarkas N.V.;

AEGON Bank N.V.;

Spaarbeleg Kas N.V.;

Meeùs Groep B.V.; and

TKP Pensioen B.V.

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

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

Service center pensions;

Service center life insurance;

Service center non-life insurance;

Service center banking; and

Service center asset management.

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

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

Corporate & Institutional Clients (C&IC), which focuses on large companies as well as company pension funds and industry pension funds;

Intermediary, which focuses on retail and institutional clients through independent agents;

Meeùs, which focuses on the affiliated Meeùs Groep; and

AEGON Spaarbeleg, which supports AEGON The Netherlands' own advisers as well as direct sales.

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ii. Products and Distribution

AEGON The Netherlands offers five product lines:

Pensions;

Life insurance;

Non-life insurance;

Banking; and

Asset management.

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

Pension Products

Pension products are mainly sold by C&IC and Intermediary.

The main products are:

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

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

Medium and small-sized enterprises growth pensions;

Medium and small-sized enterprises guarantee pensions;

AEGON Pensioen Pakket (defined contribution); and

AEGON Garantie Pensioen (defined benefit).

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

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

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

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

Life Insurance Products

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

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

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

Mortgage Savings Products. AEGON The Netherlands provides mortgage loans to customers for a period of twenty or thirty years. The loan is repaid at the redemption date with, fully or partly, the proceeds from a savings policy. Upon the death of the insured within the policy contract period, the benefit payment is used to repay the mortgage loan. The interest paid on the loan is normally tax deductible and the customer retains the full income tax benefit over the contract period so long as there is no early redemption. The interest paid on the mortgage loan usually equals the interest accumulated on the account balance under the savings policy. In case of surrender the policyholder loses the tax benefit.

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

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

Non-life Products

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Non-life insurance products are mainly sold by the marketing and sales organizations Intermediary and Meeùs. Non-life products consist primarily of Accident & Health and Property and Casualty.

Over the past few years the Dutch government has gradually withdrawn from the sick leave (ziekteverzuim) and workers disability market. In the Property and Casualty segment, AEGON's strategy is to seek value creation rather than volume.

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Banking

AEGON Bank N.V. supplies savings accounts with simple conditions. The products are sold under the Spaarbeleg name through the marketing and sales organization Intermediary and AEGON Spaarbeleg.

Asset Management

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

Advice and Other activities

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

iii. Asset Liability Management

Most liabilities of AEGON The Netherlands 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 such as the minimum return on equity and the maximum solvency risk determine alternative strategic investment policies.

The strategic investment strategy for AEGON The Netherlands is determined and monitored by the Risk and Capital 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 benchmark 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.

iv. Reinsurance ceded

Life

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

Non-life

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

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v. Competition

AEGON NL operates in five markets: Pensions, Life, Non-Life, Banking services and Asset management. AEGON faces strong competition in all of these markets from insurers, banks and investment management companies. These competitors are nearly all part of international financial conglomerates.

AEGON has been a key player in the total life market for a long time and is currently ranked 2nd behind ING (source: Regulatory Returns 2003). The life insurance market, comprising both pensions and life insurance, is fairly consolidated. The top 7 account for 79% (source: Regulatory Returns 2003) of premium income in The Netherlands.

The markets for other products sold by AEGON are more fragmented and AEGON's share and position in these areas is lower.

In recent years, several changes in regulations have presented limited opportunities in the Dutch life insurance market, especially in the Individual Life market (company savings plans, tax deductibility of premiums, etc.). Furthermore, the low economic growth and volatility of the financial markets have created uncertainty on the part of clients and reluctance to commit to long-term contracts. These changed legal and market conditions have increased competition. This is expressed in low pricing, focus on service levels and product innovation. On the other hand, in the Non-Life segment opportunities are expected to grow as the Dutch government gradually withdraws from this market.

vi. Regulation

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

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

De Nederlandsche Bank (the Dutch Central Bank) or DNB.

On October 30, 2004, the PVK (Pensioen- and Verzekeringskamer, the Pension and Insurance Supervisory Authority) merged with the DNB into a single authority for supervising the solvency of all financial institutions. This new institution is called DNB.

The allocation of responsibilities between the AFM and DNB is formalized in a covenant. The AFM is responsible for supervising corporate governance and marketing efforts to consumers (supervision of market conduct) and the DNB supervises the financial strength of the financial system and the institutions that are part of it. It is expected that in 2005 the regulations regarding the supervision of financial institutions will be combined into one regulatory framework, the so-called *Wet Financieel Toezicht* (Act on Supervision of the Financial System).

Insurance Companies

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The European Union Insurance Directives issued in 1992 were incorporated into Dutch law in 1994. The Directives are based on the home country control principle. This means that an insurance company that has a license issued by the regulatory authorities in its home country, is allowed to conduct business, either directly or through a branch, in any country of the European Union. An insurance company must be separately licensed for each branch in which it conducts business. The regulatory body that issued the license is responsible for monitoring the solvency of the insurer. The local regulatory body is, however, responsible for monitoring market conduct, and local consumer protection laws prevail.

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

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

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

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

AEGON Levensverzekering N.V.;

AEGON Schadeverzekering N.V.;

AEGON Nabestaanden Zorg N.V.;

AEGON Spaarkas N.V.;

Spaarbeleg Kas N.V.;

AXENT/AEGON Leven N.V.;

AXENT/AEGON Sparen N.V.;

AXENT/AEGON Schade N.V.;

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

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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.

As of January 2006, DNB plans to put the Financial Review Framework (Financieel Toetsingskader) (FTK) in place for pension funds and insurance companies. The FTK requires these entities to perform a solvency test, based on a fair value approach of the assets and liabilities. The second component of the FTK is a continuity test that requires the pension funds and insurance companies to prepare a sensitivity analysis of their financial position to external factors.

Credit Institutions

AEGON Bank N.V. falls under the supervision of DNB, pursuant to the Act on the Supervision of the Credit System 1992 mandate and 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

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

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

Total employment as at December 31, 2004 was 4,513, which includes 159 agent-employees.

The primary operating subsidiaries of AEGON UK are:

Scottish Equitable plc;

Guardian Assurance plc;

Guardian Linked Life Assurance Ltd;

Guardian Pensions Management Ltd;

AEGON Asset Management UK plc; and

AEGON UK Distribution Holdings Ltd.

AEGON UK operates three distinct businesses:

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

AEGON Asset Management investment management operations; and

AEGON UK Distribution network of distribution intermediary businesses.

ii. Products and Distribution

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

Pensions

In June 2004, the government announced an increase in the price cap from April 2005 for new stakeholder business to 1.5% for 10 years and then 1% thereafter from the previous 1% flat charge. This is expected to reduce margin pressure in this area.

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

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

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Group Pensions. The sale of group pensions is a prime focus of Scottish Equitable plc (SE). These are pension funds for the employees of corporate customers and cover a range of benefit options, which are predominantly defined contribution. At retirement, cash up to the maximum allowed can be taken, with the remainder of the accumulated pension fund used to purchase an annuity or invest in a drawdown policy until age 75. SE also sells and administers defined benefit pensions. Although the market for new schemes of this type of product has decreased in recent years, opportunities remain to take over the administration of existing schemes.

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

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

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

UK and Offshore Bonds

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

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

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

Offshore Bonds. Scottish Equitable International (Dublin) plc is a provider of offshore life contracts.

These are sophisticated packaged investment products with tax advantages for clients in the United Kingdom and overseas. The products meet the needs of high net worth individuals for investment choice and flexibility, inheritance tax planning (in conjunction with trust arrangements) and general tax planning. They are also recommended for investing corporate money.

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

Individual Protection

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

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A fast growing area within the individual protection market is the ability to transact business electronically and AIP's proposition development is adapting to reflect this. Development of an electronic proposition has been a key focus area for AIP over the last 12 months and will continue to be so throughout 2005, delivering straight-through processing.

Group Risk Contracts

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

Mutual Funds

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

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

Advice

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

There are approximately 30,000 active registered independent financial advisors in the United Kingdom, many of whom are grouped into networks of advisors, who act as large national distributors. The thirty largest of the 5,300 IFA firms operating in AEGON UK's key markets employ 80% of the registered independent financial advisers. AEGON UK has strong relationships with independent financial advisers across the market, but is particularly involved with the networks and with large local firms.

To support this activity, there are over 250 broker-consultants based in the UK, operating out of local branch offices. SE provides support to local IFAs through this branch network in areas such as business development and training.

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In 2002 and 2003, AEGON UK acquired six independent financial advisers in the UK. On May 18, 2004 a new business, Origen, was launched as a result of combining five of these businesses and it will be fully operational during the first quarter of 2005. Origen delivers advice relating to financial needs to a range of customers (both individuals and corporates) using a range of distribution methods (primarily face to face but also using media and worksite marketing). The sixth firm acquired, Positive Solutions, provides management services to self-employed IFAs using a market-leading technology platform.

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iii. Asset Liability Management

Asset liability management (ALM) is overseen by an AEGON UK ALM Committee, which is in place to focus on monitoring regulatory capital requirements and ensuring close matching of assets and liabilities. The AEGON UK ALM Committee meets 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.

For the unit-linked business the matching philosophy results in close matching of the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets is invested in funds managed by external investment managers. An investment committee, which reports to the appropriate Boards of Directors, meets quarterly to monitor performance of the investment managers against fund benchmarks and, as appropriate, sets benchmarks/risk profiles for funds. 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.

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.

iv. Reinsurance Ceded

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

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.

v. Competition

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

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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. Leading market shares are typically below 10%.

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

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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 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.

vi. Regulation

Most of AEGON's UK companies are regulated by the Financial Services Authority under the Financial Services and Markets Act 2000. Regulation has been extended to mortgage advisers from November 1 2004 and general insurance brokers from January 15 2005.

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 have been 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 Finance Director, 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 four corporations: a Dublin-based company (authorized by the Irish Financial Services Regulatory Authority and the FSA for conduct of UK business); 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 AEGON Hungary Composite Insurance Company Rt (AEGON Hungary) is 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. AEGON Hungary is a limited liability company. It operates in Hungary and has its head office in Budapest. AEGON Hungary's main operations are life insurance, general insurance and asset management.

AEGON Hungary has four subsidiaries:

AEGON Hungary Financial Services Rt;

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AEGON Real Estate Management Kft;

AEGON Pension Fund Management Rt; and

AEGON Hungary Fund Management Rt.

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

At December 31, 2004, AEGON Hungary employed a staff of 767 employees.

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ii. Products and Distribution

AEGON Hungary is a composite insurance company offering both life insurance and non-life insurance products. The core business products are life, pension, mortgage and household insurance. Strong pension fund sales have played a key role in the sales performance of AEGON Hungary. The life insurance product portfolio consists of traditional general account products and unit-linked products, although in recent years unit-linked sales have been much more significant than general account product sales. AEGON Hungary's share in the household segment is 37% (source: Annual Report of Hungarian Insurance Association, 2003). Margins for household insurance are attractive and present AEGON Hungary with opportunities for cross-selling life insurance products. Property and car insurance are also represented in the portfolio but are not core products.

Pension Insurance

Pension insurance is a core business product of AEGON Hungary. Therefore pension fund services are also offered. The mandatory and voluntary pension funds of AEGON Hungary are in 2003 among the largest in the country in terms of managed assets and number of members (source: www.pszaf.hu). The pension fund business concentrates its growth strategy on adding new members and taking over other pension funds.

Traditional General Account Products

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

Unit-linked Products

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

Group Life Products

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

Asset Management

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

Distribution Channels

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

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

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

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

iii. Asset Liability Management

AEGON Hungary has centralized and outsourced its investment activity to AEGON Hungary Fund Management Company, which manages the general account portfolio and the unit-linked portfolio, as well as the portfolio of four mutual funds and the assets of pension funds.

The AEGON Pension Fund Management Company is responsible for the operation and management of the voluntary and mandatory pension funds. Its two main sources of revenue are fees for administrative services and asset management fees.

The majority of AEGON Hungary's investment portfolio consists of government bonds and mortgage bonds. Shares and real estate are only a small part of the portfolio. AEGON Hungary's asset liability management model is based on duration management.

iv. Reinsurance Ceded

AEGON Hungary's reinsurance partners are all significant reinsurers in the European and London markets. Only reinsurers with a minimum rating of A (Standard & Poor's) are allowed. The three most important programs in force in the last ten years are the Catastrophe Excess of Loss Treaty, the Motor Third Party Liability Excess of Loss Treaty and the Property per Risk Excess of Loss Treaty. AEGON Hungary's catastrophe cover, which protects private homeowners, is significant in the Hungarian market. In addition, AEGON Hungary has smaller treaties for other business lines, such as General Third Party Liability, Marine Cargo and Life & Group Life Business. The majority of AEGON Hungary's programs are non-proportional Excess of Loss programs, which is in line with AEGON Hungary's strategy to cede only the higher risks or involve the reinsurers in high losses.

v. Competition

The Hungarian insurance industry is very concentrated, with five to six major companies comprising 80 to 83% of the market, based on premium income (source MABISZ – Association of Hungarian Insurance Companies). However, premium share concentration in the market is slowly decreasing; there are currently more than 25 insurance companies active in Hungary.

vi. Regulation

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A new Insurance Act (LX. 2003.) regulates the foundation, operation and reporting obligations of insurance companies. This act complies with EU regulations. 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. Insurance companies established before 1995, including AEGON Hungary, are exempted from this rule.

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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 AEGON Hungary 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.

vii. Slovakia Czech Republic

Slovakia

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

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

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

Czech Republic

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

4.7 Spain

i. General History

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

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

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

At December 31, 2004, AEGON Spain employed a staff of 673 employees.

At January 1, 2005 AEGON Seguros Generales has been sold to Reale Seguros Generales (Reale). As part of the agreement, AEGON Seguros Generales' distribution network in Spain will continue to sell AEGON's life and health insurance products. At the same time, AEGON will acquire the life portfolio of Reale Mutua in Spain, which will give AEGON access to Reale Mutua's existing agent distribution network, valid for five years and renewable thereafter.

AEGON Spain will continue to expand its life insurance business strengthening its own agent distribution capability, by enhancing its existing Bancassurance partnership with Caja de Ahorros del Mediterraneo (CAM) and by pursuing new distribution opportunities.

ii. Products and Distribution

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

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

Individual life products are sold in urban centers by specialized agents and brokers and in rural areas by specialized agents and on a direct marketing basis. Group life products are distributed through banks and financial institutions as well as through brokers and specialized agents.

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

iii. Asset Liability Management

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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 benefit from 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.

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iv. Reinsurance Ceded

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

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 health insurance products.

vi. Regulation

The Dirección General de Seguros (DGS) is the regulatory authority for the Spanish insurance industry. Insurance companies are required to report to the DGS on a quarterly basis. The Spanish 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 by Spanish law, which is based on the Third EU Directive (92/96/EEC). The regulation requires the appropriate matching of investments and technical provisions and 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.

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

Total employment of AEGON Taiwan as of December 31, 2004 was 892, including 580 agents.

ii. Products and Distribution

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AEGON Taiwan offers a broad range of insurance products meeting a variety of consumer needs, including whole life, endowment life, term life, accident and supplemental health, variable universal life, annuities, group life and health, as well as a range of policy riders. Variable universal life, introduced in April 2002, is one of the major products in the agency channel. In 2003, new product initiatives included an updated version of the whole life product series. Furthermore, AEGON Taiwan launched an innovative variable annuity product in 2004 targeted at long-term savings and retirement planning. Both products are sold through multiple distribution channels. The agency channel consists of a network of over 500 full-time professional career agents operating

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

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

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 achieve a close match between the durations of assets and liabilities and reduce total risk while maximizing investment yield. To achieve these objectives, specific risk limits are established for the investment portfolio given the general account liabilities as defined by a baseline investment policy statement.

iv. 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. At the end of 2004, there were 29 life insurance companies in Taiwan, 14 of which were domestic companies and 15 of which were subsidiaries owned by foreign companies or branches of foreign companies. In 2003, insurance premium totaled NTD 1,309 billion (approximately EUR 31 billion), with the top five companies accounting for around 65%.

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. Among all the foreign companies, AEGON ranked 6 in terms of new business premium production for the full year of 2004 (source: Life Insurance Association of the Republic Of China).

v. Regulation

AEGON Taiwan is subject to regulation and supervision by the Financial Supervisory Commission. 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.

vi. Reinsurance

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

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4.9 China

i. General History

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

The total employment of AEGON-CNOOC as of December 31, 2004 was 746, including 518 agents.

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

ii. Products and Distribution

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

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

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

iii. Asset Liability Management

Being a newly established company, the asset liability management of AEGON-CNOOC is still under development. Considering that most insurance liability is derived from 5-year single-premium products, AEGON-CNOOC purchased 5-year government bonds to match this liability.

iv. Reinsurance ceded

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According to the regulations of the China Insurance Regulatory Commission (CIRC), AEGON-CNOOC cedes a quota share of accident and health business to the China Reinsurance Company. The quota share for the business written in 2003 is 15% and for the business written in 2004 is 10%.

In addition, AEGON-CNOOC enters into several commercial reinsurance arrangements to achieve a diversification of risks and limit the maximum loss on risks that exceed policy retention limits. AEGON-CNOOC entered into reinsurance programs with Munich Re, Swiss Re and General Re. The maximum amount retention limit on any one individual life is generally RMB 200,000 (approximately EUR 18,000).

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v. Competition

The life insurance industry in China has shown significant growth in recent years, while the competition has become increasingly fierce. With the release of restrictions on foreign insurance companies, an increasing number of foreign insurance companies are entering the Chinese market. At the end of 2004, 19 foreign life insurance companies had an operation in China. At the same time, almost all major domestic insurers have set up branches in all major cities in China. In 2004, two major leading life insurance companies (China Life and Ping An Life) have successfully listed in the Hong Kong stock market to strengthen their capital adequacy for further expansion. Up to October 2004, the top five life insurance companies (China Life, Ping An, Pacific Life, New China Life and Taikang Life) captured approximately 89% market share of the life insurance business in China (source: China Insurance Regulatory Commission website).

vi. Regulation

Life insurance joint ventures have been allowed to operate nationally and enter the group insurance market since December 2004. Previously a joint venture had to obtain a separate license for each city in which they were operating. Furthermore, the capital requirement for branch expansion has also been eased with the issuance of a new regulation by the CIRC in June 2004. Insurance companies with a registered capital at the minimum level of Rmb 200 million (approximately EUR 18 million) are required to inject additional capital of at least Rmb 20 million (approximately EUR 2 million) if they are opening a new branch office elsewhere in the country.

Restrictions on the investment portfolio have also been eased. Life insurance companies are now allowed to invest in government bonds, corporate bonds, convertible bonds, sub-ordinated credit/bonds and foreign assets, but also directly in equity markets (according to the provisional regulation announced by the regulatory authority on October 25, 2004).

4.10 Transamerica Finance Corporation

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

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

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

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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 States 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.

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.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.1 Introduction

AEGON is committed to providing information on key factors that drive its business and affect its financial condition, results and value. 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 .

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

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

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

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

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

Key impacts

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

Investments, realized gains and losses on debt securities, bond default reserve

Under DAP, all debt securities were valued at amortized cost. Under IFRS, most debt securities, including bonds and certain loan portfolios, will be valued at fair value. Since the fair value of these debt securities exceeds the amortized costs, AEGON will reflect a credit in shareholders equity in the Opening Balance Sheet.

The way these securities will be classified under IFRS as either available for sale or at fair value through profit and loss , determines how unrealized movements in fair value from period to period are recognized, either directly in shareholders equity or in the income statement respectively.

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Changes in fair value of these securities are expected to create a level of volatility in AEGON's shareholders' equity which does not reflect the underlying economics of the business. To mitigate this anomaly, which is purely accounting driven, if there is a direct link between the measurement of the invested assets and the measurement of the insurance liabilities or related deferred policy acquisition costs (DPAC) and Value of Business Acquired (VOBA) asset, AEGON will adjust shareholders' equity in such a way as if these unrealized movements in fair value had actually been realized. This adjustment is generally referred to as "shadow accounting".

The default provision that existed under DAP for debt securities will be credited to shareholders' equity in the Opening Balance Sheet.

Under DAP *interest related gains and losses on debt securities* were deferred and released into earnings over the estimated average remaining term to maturity. Under IFRS, gains and losses will be recognized in the income statement when realized. The deferred gains that existed in the DAP balance sheet will be released to shareholders' equity in the Opening Balance Sheet.

Technical provisions, Deferred Policy Acquisition Costs, Value of Business Acquired

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

For all products classified as insurance contracts or investment contracts with discretionary participation features, AEGON continues to apply current accounting principles.

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

Defined benefit plans

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

Deferred tax

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

Derivatives

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

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Perpetual capital securities

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

Result on sale of TFC businesses

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

5.2 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

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

Guaranteed minimum benefits (GMBs) 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 the accounts of policyholders. The life insurance technical provision includes provisions for GMBs 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 (GMDB), under which the beneficiaries receive the greater of the account balance or the guaranteed amount when the insured dies. Many variable annuity products also contain a guaranteed minimum income benefit (GMIB) feature that provides for minimum payments if the contractholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the contractholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value, respectively. Our technical provision for life insurance includes a provision in connection with the guarantees issued.

The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. AEGON regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used in estimating the liability at December 31, 2004 are consistent with those used for amortizing DPAC, including the mean reversion assumption. The assumptions of investment performance and volatility are consistent with historical experience. The benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios.

The GMIB liability is determined each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. AEGON regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used for calculating the GMIB liability at December 31, 2004 are consistent with those used for calculating the GMDB liability. In addition, the calculation of the GMIB liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

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 contractholder'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 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.

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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. The provision is developed applying the accrual method based on pricing assumptions less actual deductions. 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 United States variable annuity account balance at December 31, 2004 was EUR 29.7 billion (USD 40.4 billion) compared to EUR 29.2 billion (USD 36.8 billion) at December 31, 2003. The GMB reserve balance totaled EUR 159 million at December 31, 2004 compared to EUR 161 million at December 31, 2003, representing a decline of EUR 2 million during 2004. These balances exclude an assumed GMWB contract that is carried at fair value pursuant to a SFAS 133 methodology. The GMB reserve includes EUR 100 million of GMDB reserve and EUR 59 million of GMIB reserve, respectively, at December 31, 2004.

For the Canadian Segregated funds the account balance at December 31, 2004 was EUR 3.0 billion compared to EUR 2.9 billion at December 31, 2003. The GMB reserve balance totaled EUR 116 million at December 31, 2004 compared to EUR 102 million at December 31, 2003, representing an increase of EUR 14 million during 2004.

The Netherlands unit-linked policies, including group contracts, had an account balance of EUR 11.2 billion at December 31, 2004 compared to EUR 9.3 billion at December 31, 2003 and the GMB reserve totaled EUR 323 million at December 31, 2004 compared to EUR 278 million at December 31, 2003, representing an addition of EUR 45 million during 2004.

The total Net Amount at Risk (NAR) (excess of guaranteed amount over account values) at December 31, 2004 amounted to EUR 3.9 billion compared to EUR 5.1 billion at December 31, 2003. It should be noted that the 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.

Table of Contents*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 growth rate after considering the net effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). At December 31, 2004 and 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% (9% at December 31, 2003), gross short-term growth rate was 6.25% (7.5% at December 31, 2003), the reversion period for the short-term rate is five years, the gross short and long-term fixed security growth rate was 6% and the gross short and long-term growth rate for money market funds was 3.5%. For AEGON Canada the short-term equity growth rate assumption was 10.75% (2003: 10.75%) and the long-term equity growth rate assumption was 9% (2003: 9.5%). 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.

The movement in DPAC (life insurance) over 2004 can be summarized and compared to 2003 as follows:

	2004	2003 ²
In million EUR		
Deferred policy acquisition costs		
Balance at January 1	12,717	14,352
Deferred during the year	1,465	1,847
Amortization charged to the income statement	(1,270)	(1,398)
Other changes ¹	(657)	(2,084)
Balance at December 31	12,255	12,717

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- ¹ Mainly caused by currency exchange rate differences.
- ² The 2003 numbers have been adjusted to reflect changes in accounting principles implemented as of January 1, 2004.

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Included in our DPAC is a substantial amount of Value of Business Acquired (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, 2004, the VOBA related to life insurance amounted to approximately EUR 3.4 billion compared to EUR 3.8 billion at December 31, 2003.

The movement in DPAC (non-life insurance) over 2004 can be summarized and compared to 2003 as follows:

	2004	2003
In million EUR		
Balance at January 1	947	1,109
Deferred during the period	208	291
Amortization charged to the income statement	(229)	(273)
Other changes ¹	(48)	(180)
Balance at December 31	878	947

¹ Mainly caused by currency exchange rate differences.

At December 31, 2004, the VOBA related to non-life insurance amounted to EUR 190 million compared to EUR 244 million at December 31, 2003.

DPAC balances at December 31, 2004 by product and geographic segment are as follows:

	Americas	The Netherlands	UK	Other Countries	Total
In million EUR					
Traditional life	3,835	175	160	228	4,398
Fixed annuities	1,299				1,299
GICs and Funding Agreements	25				25
Life for account policyholder	797	685	3,729	28	5,239
Variable annuities	1,188				1,188
Fee income	100		6		106
Accident and health	846	32			878
Total	8,090	892	3,895	256	13,133
of which VOBA	2,444		1,173		3,617

iii. Default Provision and Impairment of fixed income investments and other financial investments

Provisions for losses on fixed income investments and other financial investments (bonds, asset backed securities and private placements) are established as a result of default or other credit related issues. The provisions reflect management's judgment about defaults and is based upon a variety of factors, including expectations for long-term default rates and pricing assumptions.

AEGON regularly monitors industry sectors and individual debt securities for signs of impairment. Factors considered include the length of time and extent to which the fair 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

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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.

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.

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

The default reserve balance for Bonds and other fixed rate securities and Other loans at December 31, 2003 was EUR 260 million. It increased in 2004 by a charge to the income statement of EUR 195 million and reduced by default losses on specific assets of EUR 167 million. Other movements amounted to a plus of EUR 53 million. December 31, 2004 the balance was EUR 341 million.

Impact on Future Earnings

There are a number of significant risks and uncertainties inherent in the process of monitoring investments 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 will 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, 2004:

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	Carrying value	Unrealized gains	Unrealized losses	Market value
In million EUR				
US government	3,921	54	(22)	3,953
Dutch government	1,340	88	0	1,428
Other government	9,439	634	(14)	10,059
Mortgage backed securities	18,116	328	(135)	18,309
Corporate bonds and private placements	60,795	3,482	(190)	64,087
Total	93,611	4,586	(361)	97,836
of which held by AEGON USA	73,725	3,523	(322)	76,924

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

	Carrying value of securities with unrealized losses		Unrealized losses	
	2004	2003	2004	2003
In million EUR				
Asset Backed Securities:				
Aircraft	203	289	(12)	(112)
CBOs	336	580	(26)	(49)
Housing Related	899	1,802	(7)	(45)
Credit Card	550	384	(5)	(10)
CMBS	1,189	2,079	(22)	(39)
Consumer Cyclical	1,020	807	(20)	(29)
Consumer Non-Cyclical	1,410	1,419	(44)	(40)
Electric, Energy & Natural Gas	1,409	1,933	(24)	(78)
Financials	3,432	3,768	(65)	(106)
Industries	573	3,098	(8)	(108)
Other	9,036	5,512	(128)	(127)
Total	20,057	21,671	(361)	(743)
of which held by AEGON USA	18,259	18,867	(322)	(649)

The following tables exclude money market investments of AEGON USA for an amount of USD 3,358 million as they are carried at market value. The tables are presented in million USD 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, 2004. The information is presented for AEGON USA since it represents 89% of the gross unrealized losses. The following information has been prepared according to DAP.

	DAP basis carrying value	Market value	Net un- realized gain (loss)	Carrying value of securities with unrealized gains	Un- realized gains	Carrying value of securities with unrealized losses	Un- realized losses
In million USD							
US Government	5,214	5,243	29	2,129	59	3,085	(30)
Foreign Government	1,702	1,917	215	1,540	222	162	(7)
Mortgage backed Securities	12,175	12,418	243	7,203	279	4,972	(36)
Asset backed securities	12,378	12,393	15	8,224	162	4,154	(147)
Corporate bonds	65,593	69,449	3,856	53,096	4,075	12,498	(219)
Total Bonds and Other loans	97,062	101,420	4,358	72,192	4,797	24,871	(439)

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The composition by industry categories of bonds, other fixed rate securities and private placements in an unrealized loss position held by AEGON USA at December 31, 2004 is presented in the table below. The following unrealized losses consists of 933 issuers.

	Carrying value of securities with unrealized losses	Unrealized losses
In million USD		
Sector		
Asset Backed Securities (ABSs):		
Aircraft	257	(16)
CBOs	415	(34)
Housing Related	1,214	(9)
Credit Cards	746	(7)
CMBS	1,620	(30)
Communications	986	(16)
Consumer Cyclical	1,362	(27)
Consumer Non-Cyclical	1,841	(59)
Electric, Energy & Natural GAs	1,919	(32)
Financials	3,701	(71)
Industries	717	(16)
Transportation	360	(10)
Other	9,733	(112)
Total	24,871	(439)

The information presented above is subject to rapidly changing conditions. As such, AEGON USA expects that the level of securities with overall unrealized losses will fluctuate. The recent volatility of financial market conditions has resulted in increased recognition of both investment gains and losses, as portfolio risks are adjusted through sales and purchases. As of December 31, 2004 there are USD 4.8 billion of gross unrealized gains and USD 0.44 billion of gross unrealized losses in the bonds, other fixed rate securities and private placements. Each sector in the table includes an allocation of the USD 229 million default reserve. The reserve exists as a contra asset on the balance sheet, and while it is not specified as to the asset level, it is allocated for purposes of this table based on unrealized losses of the sector.

The largest single issuer in an unrealized loss position is USD 27 million and relates to a beneficial interest in a diversified portfolio of pooled aircrafts. Gross unrealized losses of USD 253 million or 58% of all gross unrealized losses, are concentrated in the asset backed securities (aircraft, CBOs, housing related and credit cards), consumer non-cyclical, financials, electric, CMBS, and consumer cyclical sectors.

Asset Backed Securities

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 68.5% of AEGON USA's portfolio is first priority

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senior debt and 31.5% is second priority mezzanine debt, all rated investment grade at time of purchase. 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 reduced the cash flows within these trusts. Increased risk premiums associated with the current market, as well as a significant extension of the time

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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, 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. This sector includes an allocation of USD 105.2 million of the default reserve, reducing the gross unrealized loss of USD 121.2 million to USD 16 million.

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

AEGON USA owns USD 46 million in carrying value of Class B second priority mezzanine debt of Aircraft Finance Trust as of December 31, 2004. 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 subordinated debt which are subordinated to AEGON USA's holdings. The Class B debt remains current on principal and interest. However, the security is in an unrealized loss position of USD 27 million, because continued stress in the global aviation market and reduced aircraft values have reduced lease renewal rates. The debt has been in an unrealized loss position for more than 24 months. AEGON USA believes the Class B debt will not receive full principal and interest at the expected yield and therefore impaired the security to modeled results at September 30, 2004. This security is not a traded security and therefore the market values received are heavily discounted due to long duration as well as the uniqueness and illiquidity of the structure. AEGON USA expects to collect the current carrying value and has the intent and ability to hold these debt securities until recovery or maturity.

AEGON USA owns USD 50 million in carrying value of Class A first priority senior debt securities of Pegasus Aviation Lease Securitization Trust III as of December 31, 2004. 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 that are subordinated to AEGON USA's holdings. The Class A debt remains current on principal and interest; however, the security is in an unrealized loss position of USD 24 million. The debt has been in an unrealized loss position for more than 24 months. 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 USA has not taken an impairment on these debt securities because, based on modeled projections, the Class A Notes are expected to receive full principal and interest at the expected yield. This security is not a traded security and therefore the market values received are heavily discounted due to the long duration as well as the uniqueness and illiquidity of the structure. AEGON USA expects to collect the current carrying value and 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 72% first priority senior classes and 28% 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 sector includes an allocation of USD 18.4 million of the default reserve, reducing the gross unrealized loss of USD 52.4 million to USD 34 million.

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

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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 85% of AEGON USA's housing-related ABS portfolio is backed by 1-4 family residential properties and 15% 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 USA has not taken an impairment loss, these models indicate full recovery of principal and interest at the expected yield. This sector includes an allocation of USD 13.9 million of the default reserve, reducing the gross unrealized loss of USD 22.9 million to USD 9 million.

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 41% of AEGON USA's portfolio is senior debt, 27% is mezzanine debt, and 32% is subordinated debt, all of which was rated investment grade at time of purchase. Of the subordinated debt, approximately 94% is secured by loans provided to borrowers from investment grade banking institutions. The improving economy as well as positive steps taken by certain issuers to improve their business position has led to improved liquidity and pricing for some of the weaker credits in this portfolio. 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 USA 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.

Consumer Non-Cyclical

The fundamentals of the consumer non-cyclical sector continue to perform pretty well and the sector 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 overall book to market ratio is 96.3%. The vast majority of the unrealized losses in the consumer non-cyclical sector are not the result of fundamental problems with individual issuers, but rather depressed prices on low coupon transactions. That being said, some sectors are more challenged than others including the supermarket sector which faces continued strong competition. This sector includes an allocation of USD 9.3 million of the default reserve, reducing the gross unrealized loss of USD 68.3 million to USD 59 million.

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

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Financials

Banking is the most significant sector within the financial sector group. 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 overall book to market ratio is 98.4%. Unrealized losses in the banking sector are not a result of fundamental problems with individual issuers, but rather depressed prices of the sector caused by the macro economic environment.

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

Electric, Energy and Natural Gas

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 2004, most companies have been successful in accessing the capital markets to refinance near-term debt and bank 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 liquidity, reducing overall leverage, and strategically re-focusing on core, asset-based businesses. AEGON USA 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. This sector includes an allocation of USD 8.6 million of the default reserve, reducing the gross unrealized loss of USD 40.6 million to USD 32 million.

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

Commercial Mortgage-Backed Securities (CMBS)

CMBS notes are secured by a pool of mortgages on income producing properties such as offices, apartments, retail centers and industrial buildings. These properties are typically financed with longer dated, first priority senior debt and second priority mezzanine debt with limited prepayment risk. AEGON USA holds no mezzanine positions. AEGON USA holds USD 6.2 billion dollars in carrying value of first priority senior debt with 79% of the portfolio being AAA or AA rated. Underlying commercial real estate fundamentals have not kept pace with the increasingly aggressive underwriting standards currently being exercised by conduit CMBS lenders. This sector includes an allocation of USD 2.2 million of the default reserve, reducing the gross unrealized loss of USD 32.2 million to USD 30 million.

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

Consumer Cyclical

The consumer cyclical sector covers a range of sub-sectors including autos and related homebuilders, lodging, media, and retailers. These sectors include some of the largest credit issuers in the market. As a result AEGON USA's absolute exposure is large, but the overall book to market ratio is 97.6%. The Auto sector fundamentals have been pressured by high inventories, OEM production cuts and high incentives. Additionally, auto supplier fundamentals are deteriorating as a result of declining OEM market share and historically high raw material costs. As a result, we expect 2005 to be a tougher year for the sector.

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With respect to the other groups, fundamentals have experienced improvements in line with growth of the broader economy and stronger consumer sentiment (homebuilders, lodging, gaming, media, and retail). We expect this to continue in 2005. Despite generally favorable fundamentals, some credits in the sector have sold off in line with the broader market as interest rates have risen.

This sector includes an allocation of USD 5.6 million of the default reserve, reducing the gross unrealized loss of USD 32.6 million to USD 27 million.

In this sector, there were no positions within this sector with unrealized losses greater than USD 20 million.

Unrealized Loss by Maturity

The table below shows the composition by maturity of all bonds, other fixed rate securities and private placements in an unrealized loss position held by AEGON USA at December 31, 2004.

	Carrying value of securities with unrealized losses	Unrealized losses
In million USD		
Maturity Level		
One year or less	716	(9)
Over 1 thru 5 years	7,273	(94)
Over 5 thru 10 years	8,762	(183)
Over 10 years	8,120	(153)
Total	24,871	(439)

Unrealized Loss by Credit Quality

The table below shows the composition by credit quality of all bonds, other fixed rate securities and private placements in an unrealized loss position held by AEGON USA at December 31, 2004.

	Carrying value of securities with unrealized losses	Unrealized losses
In million USD		
Credit quality		
Treasury Agency	5,049	(36)
AAA	5,018	(64)
AA	1,754	(41)
A	5,777	(107)

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BBB	5,641	(169)
BB and Below	1,632	(22)
Total	24,871	(439)

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

	Investment grade carrying value	Below investment grade carrying value	Investment grade unrealized loss	Below investment grade unrealized loss
In million USD				
Time period				
0-6 months	11,778	398	(72)	(1)
> 6 to 12 months	6,142	314	(144)	(2)
> 12 months	5,319	920	(201)	(19)
Total	23,239	1,632	(417)	(22)

The table below provides the length of time a below investment grade security has been in an unrealized loss position and the percentage of carry value to amortized cost as of December 31, 2004.

	Below investment grade carrying value	Below investment grade unrealized loss
In million USD		
Time period		
0-6 months:		
CV < 100% > 70% of amortized cost	397	(1)
CV <= 70% > 40% of amortized cost	1	0
CV < 40% of amortized cost	0	0
Subtotal	398	(1)
>6 to 12 months:		
CV < 100% > 70% of amortized cost	313	(2)
CV <= 70% > 40% of amortized cost	1	0
CV < 40% of amortized cost	0	0
Subtotal	314	(2)
>12 to 24 months:		
CV < 100% > 70% of amortized cost	164	(2)
CV <= 70% > 40% of amortized cost	16	(1)
CV < 40% of amortized cost	0	0
Subtotal	180	(3)
> 24 months:		
CV < 100% > 70% of amortized cost	550	(5)
CV <= 70% > 40% of amortized cost	190	(11)
CV < 40% of amortized cost	0	0
Subtotal	740	(16)
Total	1,632	(22)

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Realized gains and losses on bonds, preferred stock and other loans of AEGON USA for the twelve months ended December 31, 2004:

	<u>Realized gains</u>	<u>Realized losses</u>
In million USD		
Credit quality		
Total Bonds, Preferred Stock and Private Placements/Other Loans	710	(578)

The gross realized losses include USD 193 million of bond default losses (net of 75 million of recoveries), which have been charged against the default reserve. The USD 635 million of gross realized gains and USD 310 million of gross realized losses related to assets not considered default losses have been deferred for reporting in accordance with Dutch accounting principles and will be amortized into income over the estimated average remaining maturity term of the investments sold.

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

	<u>0-6 months</u>	<u>>6-12 months</u>	<u>>12 months</u>	<u>Total</u>
In million USD				
Time period				
Bonds / Preferred / Other Loans	(246)	(33)	(31)	(310)

The following list describes securities which represented more than 5% of the USD 310 million of realized losses on sales of fixed maturity securities:

Losses were realized on US Government Securities of USD 93 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 310 million of realized losses on sales of fixed maturity securities.

Default losses

The composition of our default losses, net of recovery, by issuer, according to DAP, for the twelve months ended December 31, 2004 is presented in the table below.

	<u>Default Loss</u>
In million USD	
Issuer Name	
Airplanes Passthrough	(42)
Bombardier	(20)
Oakwood Mtg. Inv. Inc.	(19)

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Hoteloc PLC	(16)
Pegasus Aviation	(11)
Enterprise Mtg. Acceptance Corp.	(11)
FFCA Secured Lending Corp.	(10)
Other (116 unique issuers)	(64)
<hr/>	
Total	(193)

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In 2004, an USD 42 million loss was realized on Airplanes Passthrough in the second quarter. The debt securities were in an unrealized loss position for greater than 24 months before the impairment occurred. The notes represent a beneficial interest in a portfolio of pooled aircraft leases. Cash flows generated from the pooled aircraft leases have declined due to lower lease renewals and diminished demand for older aircraft. Due to the deterioration in cash flows, AEGON USA realized a loss of USD 14 million in the fourth quarter of 2003. In early 2004, the servicer released information stating that the Class B holdings would not be receiving interest at any point in the foreseeable future. As a result of this information, the position was further impaired to the present value of future cash flows at the expected yield.

In 2004, an USD 20 million loss was realized on Bombardier in the second quarter. Prior to the impairment, the security had been in an unrealized loss position of USD 20 million for less than 6 months. Bombardier Capital, a subsidiary of Bombardier Inc., entered into the business of financing retail manufactured housing installment contracts in 1997. Due to deteriorating collateral performance, servicing problems and increasing industry competition, Bombardier exited the industry in 2001. Bombardier continues to service their existing portfolio of originated and securitized loans. Analysis of the security indicated that performance had further deteriorated. AEGON USA does not believe that the collateral will be able to service the principal and interest on the notes and the security was impaired to the present value of future cash flows at the expected yield.

In 2004, an USD 19 million loss was realized on Oakwood Mtg. Inv. Inc throughout 2004. Of the total realized loss, USD 5 million was in an unrealized loss position of less than 6 months, USD 1 million between 12 and 24 months, and USD 13 million greater than 24 months. Oakwood Mtg. Inv. consists of manufactured housing installment sales contracts secured by manufactured homes and liens on real estate. The performance of Oakwood's portfolio deteriorated due to high defaults and low recoveries from liquidated collateral. Actual results have continued to underperform modeled results and any reversion back to industry performance will now no longer result in full payment of principal and interest. Based on this information, the security was impaired to the present value of future cash flows at the expected yield.

In 2004, an USD 16 million loss was realized on Hoteloc PLC, inclusive of foreign exchange and swap losses. At the time of the realized loss, USD 1 million was in an unrealized loss position for between 12 and 24 months, and USD 15 million was in an unrealized loss position for greater than 24 months. Hoteloc is a secured interest in a pool of commercial hotel mortgages in England, Scotland, and Wales. At the end of the first quarter 2004, the bonds experienced a technical default due to the collateral pool missing a net operating income trigger. In addition, Moody's lowered their rating as of June 2004. No impairment was recorded at either of these times based on appraisals of the underlying collateral which indicated a full return of principal in the event of liquidation. However, when liquidation procedures began on three of the larger hotels in the fourth quarter, the amount of cash received was less than expected. Subsequent appraisals also came in significantly below previous levels. Based on this information, AEGON USA made a decision to impair these securities in the fourth quarter of 2004. The security was impaired to the estimated liquidation value of the portfolio of assets.

In 2004, an USD 11 million loss was realized on Pegasus Aviation. The debt securities were in an unrealized loss position for greater than 24 months before the impairment occurred. The notes represent a beneficial interest in a portfolio of pooled aircraft leases. Cash flows generated from the pooled aircraft leases have declined due to lower lease renewals and increased remarketing periods. Due to the deterioration in cash flows, AEGON USA realized a loss in the third quarter of 2004. Based on this information, the security was impaired to the present value of future cash flows at the expected yield.

In 2004, an USD 11 million loss was realized on Enterprise Mortgage Acceptance Corp (EMAC) in the first quarter. Of the total realized loss, USD 1 million was in an unrealized loss position for less than 6 months, USD 4 million between 12 and 24 months, and USD 6 million for greater than 24 months. EMAC is an issuer of securitized franchise loan pools. The Company owns bonds from one EMAC pool that has experienced significant declines in performance. In 2003, the Trustee began to aggressively foreclose on, and liquidate, loans within the two pools.

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The recovery rates were much lower than expected. This resulted in pool cash flows being insufficient to cover interest payments on the bonds and led to an impairment loss of USD 19 million in 2003. In the current year, AEGON USA made a decision to liquidate the portfolio due to continued deterioration in this sector. As such, losses of USD 11 million were realized in order to impair the bonds to market prices.

In 2004, an USD 10 million loss was realized on FFCA Secured Lending Corp. Of the total realized loss, USD 5 million was in an unrealized loss position for less than 6 months, and USD 5 million between 6 and 12 months. FFCA provides fixed and adjustable rate commercial loans for chain store facilities. Due to deterioration in this sector, AEGON USA made a decision to liquidate the portfolio. Therefore, losses of USD 10 million were realized in order to impair the bonds to market prices.

iv. (Un)realized gains on investments in shares and real estate

As of January 1, 2004 AEGON no longer applies the indirect return method to its capital gains and losses on investments in shares and real estate. Under the new method the unrealized capital gains 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. The realized capital gains are released from the revaluation reserve and recognized in the income statement at the time of realization. Direct income (interest and dividend) is recognized in the income statement.

The comparative figures over 2003 have been adjusted to reflect the above change in accounting policy.

AEGON applies the same monitoring practices and evaluation process for identifying impairments of shares for Dutch accounting principles as for US GAAP purposes.

Equity securities held in an unrealized loss position that are below cost for over six months are evaluated for a possible other-than-temporary impairment. If an individual stock is considered to be impaired on an other-than-temporary basis, the value of the stock is written down to fair value. Additionally, as part of an ongoing process, the equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment.

These factors typically require significant management judgment. For equity securities considered to have an other-than-temporary impairment during 2004, a realized loss was recognized. The impairment review process has resulted for 2004 in EUR 14 million of impairment charges for AEGON The Netherlands, EUR 7 million impairment charges for AEGON USA and EUR 4 million for AEGON UK.

The composition of equities held by AEGON USA and AEGON The Netherlands, together accounting for 100% of AEGON's total equity investments in an unrealized loss status as of December 31, 2004 and is presented in the table below:

In million EUR	Cost basis	Carrying value	Net unrealized gains / (losses)	Carrying value of securities with unrealized gains	Unrealized gains	Carrying value of securities with unrealized losses	Unrealized losses

Equities	5,427	6,508	1,081	5,765	1,150	743	(69)
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The composition of equities by industry sector in an unrealized loss position held by AEGON The Netherlands and AEGON USA at December 31, 2004 is presented in the table below.

In million EUR	Carrying value of equities with unrealized losses	Unrealized loss
Sector		
Communication	12	(1)
Consumer Cyclical	46	(7)
Consumer Non-Cyclical	65	(6)
Financials	92	(7)
Funds	135	(8)
Industries	65	(4)
Resources	20	(2)
Services Cyclical	101	(5)
Services Non-Cyclical	29	(2)
Technology	62	(5)
Other - Limited Partnerships	79	(21)
Other Various Sectors	37	(1)
Total	743	(69)

The table below provides the unrealized loss on equities at December 31, 2004 broken down by the period of time they have been below cost.

In million EUR	0-6 months	>6-12 months	>12 months	Total
Time period				
Equities	(32)	(10)	(27)	(69)

As of December 31, 2004 there were EUR 1,152 million of gross unrealized gains and EUR 69 million of gross unrealized losses in the equity portfolio of AEGON. There are no securities held by AEGON The Netherlands and AEGON USA with an unrealized loss of more than EUR 5 million.

The table below provides the length of time the equities held by AEGON The Netherlands and AEGON USA were below cost prior to the sale and the respective realized loss in 2004.

In million EUR	0-6 months	>6-12 months	>12 months	Total
Time period				
Equities	(49)	(12)	(2)	(63)

The realized loss of EUR 63 million includes an amount of EUR 21 million, relating to securities that were impaired during 2004 prior to their sale.

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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 2004 a EUR 26 million addition to the provision for medical costs for retired personnel was made.

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 calculating the pension expense for 2004 and 2003, AEGON USA used an expected long-term rate of return assumption on pension plan assets of 8.25%. For 2004 the discount rate was lowered from 6.25% to 5.75%. AEGON USA pension expense was USD 53 million higher in 2004 compared to 2003 as a result of the assumption change 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 expense is expected to continue to increase until the fair value of the plan assets equals or exceeds the moving average.

For the full year 2005 AEGON expects to contribute EUR 89 million to the pension plans, primarily in the Netherlands and the United Kingdom.

Table of Contents**5.4 Results of Operations 2004 compared to 2003***Introduction*

As of January 1, 2004, the following changes in accounting principles have been adopted:

With International Financial Reporting Standards (IFRS) becoming AEGON's required reporting standard in 2005, AEGON decided to discontinue the indirect income method of accounting for capital gains and losses. Gains and losses on shares and real estate are now recognized in the income statement when realized;

Statement of Position (SOP) 03-01, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-duration Contracts and for Separate Accounts issued by the Accounting Standards Executive Committee (AcSEC) of the AICPA is implemented by AEGON USA. SOP 03-01 addresses a number of items within FAS 97, and two elements in particular had an effect on AEGON USA:

1. The establishment of additional mortality-based provisions on universal life contracts. SOP 03-01 changes the timing of the recognition of mortality profits into earnings;
2. SOP 03-01 changes the methodology for calculating provisions for minimum guaranteed living and death benefits on variable annuity and variable life contracts.

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

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

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

	January 1, 2004	January 1, 2003
Amounts in million EUR	_____	_____
Shareholders' equity - as reported	14,132	14,231

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Effect of SOP 03-01	(185)	(185)
Shareholders' equity - adjusted	13,947	14,046

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

Table of Contents**i. Highlights**

	2004	2003¹	Change
In million EUR			
Income by product segment			
Traditional life	726	778	(7%)
Fixed annuities	313	282	11%
GICs and funding agreements	204	164	24%
Life for account of policyholders	355	248	43%
Variable annuities	161	60	
Fee business	54	5	
	1,813	1,537	18%
Life insurance	294	275	7%
Accident and health insurance	107	60	78%
General insurance			
	2,214	1,872	18%
Total insurance activities	22	20	10%
Banking activities	(453)	(429)	6%
Interest charges and other			
	1,783	1,463	22%
Income before realized gains and losses on shares and real estate	600	(270)	
Realized gains and losses on shares and real estate	2,383	1,193	100%
Income before tax and exceptional items	(218)	0	
Exceptional items			
	2,165	1,193	81%
Income before tax	(511)	(378)	35%
Corporation tax	9	218	(96%)
Non consolidated ventures			
	1,663	1,033	61%
Net income			
Net income before realized gains and losses on shares and real estate and before exceptional items	1,386	1,277	9%

¹ The 2003 numbers have been adjusted to reflect changes in accounting principles implemented as of January 1, 2004. See the Introduction to Item 5.4 for a reconciliation from 2003 reported numbers to adjusted numbers.

Included in this report are financial measures, pre-tax as well as after-tax, that exclude realized gains and losses on shares and real estate and exceptional items. Net income before realized gains and losses on shares and real estate and exceptional items is a non-GAAP measure. Management uses this non-GAAP measure, in addition to GAAP measures, as an indicator of AEGON's financial performance and believes that the presentation of this measure provides useful and important information to analysts and investors. This non-GAAP measure should be seen as part of a range of supplementary measures, that assist in achieving greater transparency and understanding of insurance reporting and can help investors and analysts in comparing AEGON with its peers. Reconciliation of this measure to the most comparable GAAP measure is provided below.

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	<u>2004</u>	<u>2003</u>	
In million EUR			
Net income before realized gains and losses on shares and real estate and before exceptional items	1,386	1,277	
Realized gains and losses on shares and real estate	600	(270)	
Corporation tax on realized gains and losses on shares and real estate	(105)	26	
Exceptional items	(218)	0	
Net income	1,663	1,033	
	<u>2004</u>	<u>2003</u>	<u>Change</u>
In million EUR			
Income geographically			
Americas	1,775	1,260	41%
The Netherlands	720	112	
United Kingdom	218	173	26%
Other countries	123	77	60%
	<u>2,836</u>	<u>1,622</u>	
Income before tax business units	2,836	1,622	75%
Interest charges and other	(453)	(429)	6%
	<u>2,383</u>	<u>1,193</u>	
Income before tax and exceptional items	2,383	1,193	100%
Exceptional items	(218)		
	<u>2,165</u>	<u>1,193</u>	
Income before tax	2,165	1,193	81%
Corporation tax	(511)	(378)	35%
Non consolidated ventures	9	218	
	<u>1,663</u>	<u>1,033</u>	
Net income	1,663	1,033	61%

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

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

Net income before realized gains and losses on shares and real estate and before exceptional items increased 9% to EUR 1,386 million in 2004. This increase reflects the improved results from AEGON's country units, which more than offset the lower income from Transamerica Finance Corporation (a net loss of EUR 20 million compared to a net profit of EUR 218 million in 2003). Net income, which includes realized gains and losses on shares and real estate and a EUR 218 million exceptional charge, increased to EUR 1,663 million compared to EUR 1,033 million in 2003. The exceptional charge relates to the agreement with Dexia to resolve the dispute over the sale of Labouchere to Dexia in 2000. The effective tax rate declined to 24% in 2004 from 32% in 2003 primarily reflecting higher realized gains on tax preferred investments in the Netherlands and a one-time reduction in taxes in the United States.

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

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

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

	2004	2003 ¹	Change	2004	2003 ¹	Change
	In million USD			In million EUR		
Income by product segment						
Traditional life	649	625	4%	522	553	(6)%
Fixed annuities	389	319	22%	313	282	11%
GICs and funding agreements	254	185	37%	204	164	24%
Life for account of policyholders	101	68	49%	81	60	35%
Variable annuities	200	68		161	60	
Fee business	17	(20)		14	(18)	
Life insurance	1,610	1,245	29%	1,295	1,101	18%
Accident and health insurance	321	254	26%	258	224	15%
Income before realized gains and losses on shares and real estate	1,931	1,499	29%	1,553	1,325	17%
Realized gains and losses on shares and real estate	276	(74)		222	(65)	
Income before tax	2,207	1,425	55%	1,775	1,260	41%
Corporation tax	(638)	(391)	63%	(513)	(346)	48%
Net income	1,569	1,034	52%	1,262	914	38%

¹ See the Introduction to Item 5.4 for a reconciliation from 2003 reported numbers to adjusted numbers.

Income before realized gains and losses on shares and real estate

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

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

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Included in 2003 results was a one-time USD 70 million property insurance recovery and provision release and USD 10 million of interest on an IRS tax refund.

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

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

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

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

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

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

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

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Net income

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

The effective tax rate was 29% for 2004 compared to 27% for 2003. The fourth quarter tax provision includes a one-time reduction in taxes of USD 86 million related to repatriation of accumulated earnings from Canada pursuant to the American Jobs Creation Act. The increase in taxes compared to 2003 is driven by a higher increase in earnings relative to the slower growth in tax preference investments such as affordable housing projects.

Revenues

Revenues of USD 18,341 million increased 11% compared to 2003. Life insurance gross premiums of USD 8,104 million increased 16%, accident and health insurance premiums of USD 2,541 million increased 1%. Investment income of USD 6,687 million increased 10% (4% excluding realized gains and losses on shares and real estate), and fees and commissions of USD 1,009 million increased 4%.

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

Life for account of policyholders premiums of USD 1,903 million were up 46% in 2004 compared to 2003. Single premiums of USD 651 million increased significantly in the fourth quarter of 2004 due to the sale of a large Bank Owned Life Insurance (BOLI) case. These sales occur in large amounts but not on a regular or predictable basis. Certain additional variable universal life deposits (USD 446 million) were reported as single premiums in prior years but are reported as recurring-renewal in 2004 which is considered more reflective of the true nature of the deposits.

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

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

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

Table of Contents*Commissions and expenses*

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

Production

Standardized new life production increased by 1% to USD 1,087 million (5% on a comparable basis to 2003 - certain additional variable universal life deposits were reported as single premiums in prior years but are reported as recurring in 2004), reflecting growth in general account sales due to solid agent recruiting. Life for account of policyholder sales increased significantly in the fourth quarter of 2004 as a large BOLI case closed. These sales tend to be large and less predictable in nature.

Deposits into fixed and variable annuity contracts and institutional spread based products (GICs and funding agreements) were recorded directly to the balance sheet as a deposit liability and not reported in revenues.

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

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

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

Off balance sheet products include managed assets such as mutual funds, collective investment trusts and synthetic GICs. Off balance sheet production was USD 18.4 billion, a 14% decrease compared to 2003. Mutual fund sales of USD 11.2 billion for 2004 increased 35% over 2003, reflecting the expanded marketing relationships with wirehouse networks. Synthetic GIC sales of USD 7.3 billion decreased 45% as equity products are now attracting more funds than stable value alternatives. Off balance sheet assets increased 20% over 2003 and totaled USD 76 billion a year-end 2004. AEGON does not manage the assets underlying a synthetic GIC and is not subject to the investment risk, but receives a fee for providing liquidity to benefit plan sponsors in the event that qualified plan benefit requests exceed plan cash flows.

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	2004	2003¹	Change
In million EUR			
Income by product segment			
Traditional life	196	197	(1)%
Life for account of policyholders	42	18	
Fee business	28	13	
Life insurance	266	228	17%
Accident and health insurance	28	44	(36)%
General insurance	36	11	
Total insurance activities	330	283	17%
Banking activities	22	20	10%
Income before realized gains and losses on shares and real estate	352	303	16%
Realized gains and losses on shares and real estate	368	(191)	
Income before tax	720	112	
Corporation tax	(83)	(87)	(5)%
Net income	637	25	

¹ See the Introduction to Item 5.4 for a reconciliation from 2003 reported numbers to adjusted numbers.

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

Income before realized gains and losses

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

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

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

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

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

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

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

Net income

Net income, which includes realized gains and losses on shares and real estate, amounted to EUR 637 million, compared to a net profit of EUR 25 million in 2003 mainly due to increased realized gains on shares and real estate in 2004, which amounted to EUR 368 million in comparison to a loss of EUR 191 million in 2003.

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

Revenues

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

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

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

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

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Commissions and expenses

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

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

Production

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

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

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

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

Table of Contents**iv. United Kingdom**

	<u>2004</u>	<u>2003¹</u>	<u>Change</u>	<u>2004</u>	<u>2003¹</u>	<u>Change</u>
	In million GBP			In million EUR		
Income by product segment						
Traditional life	(7)	1		(11)	2	
Life for account of policyholders	154	128	20%	227	184	23%
Fee business	4	1		6	2	
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
Income before realized gains and losses on shares and real estate	151	130	16%	222	188	18%
Realized gains and losses on shares and real estate	(3)	(10)	70%	(4)	(15)	73%
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
Income before tax	148	120	23%	218	173	26%
Corporation tax	(42)	(34)	24%	(62)	(49)	27%
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
Net income	106	86	23%	156	124	26%

¹ See the Introduction to Item 5.4 for a reconciliation from 2003 reported numbers to adjusted numbers.

Income before realized gains and losses

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

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

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

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

Net income

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

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Revenues

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

Commissions and Expenses

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

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

Production

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

Table of Contents**v. Other Countries**

	2004	2003¹	Change
In million EUR			
Income by product segment			
Traditional life	19	26	(27)%
Life for account of policyholders	5	(14)	
Fee business	6	8	(25)%
Life insurance	30	20	50%
Accident and health insurance	8	7	14%
General insurance	71	49	45%
Income before tax and realized gains and losses on shares and real estate	109	76	43%
Realized gains and losses on shares and real estate	14	1	
Income before tax	123	77	60%
Corporation tax	(32)	(20)	60%
Net income	91	57	60%

¹ See the Introduction to Item 5.4 for a reconciliation from 2003 reported numbers to adjusted numbers.

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:

	2004	2003
Hungarian Forint (HUF)	252	253
New Taiwan Dollar (NTD)	42	