AEGON NV
Form 20-F
March 31, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2002

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 0-14071

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, 2591 TV The Hague, The Netherlands

(Address of principal executive offices)

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

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

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 1,444,579,122 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 the Association and to Vereniging AEGON are to Vereniging AEGON. References to the NYSE are to the New York Stock Exchange. References to the SEC are to the Securities and Exchange Commission.

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

FORWARD-LOOKING STATEMENTS

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

All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations, including, but not limited to, the following:

- changes in general economic conditions, particularly in the United States, The Netherlands and the United Kingdom;
- changes in the performance of financial markets, including emerging markets, including:
  - the frequency and severity of defaults by issuers in our fixed income investment portfolios; and
  - the effects of corporate bankruptcies and/or accounting restatements (such as Enron and WorldCom) 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;
- 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;

customer responsiveness to both new products and distribution channels;

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

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

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

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, 2002.

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the Netherlands (Dutch accounting principles), which differ in certain significant respects from generally accepted accounting principles in the United States (US GAAP). You can find a description of the significant differences between Dutch accounting principles and US GAAP and a reconciliation of shareholders equity and net income based on Dutch accounting principles to US GAAP in note 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, 2002.

Years ended December 31,

	2002	2001	2000	1999	1998
	(in million EUR, except per share amounts)				
Consolidated income statement information:					
Amounts based upon Dutch accounting principles[1]					
Premium income	21,356	21,578	20,771	14,980	11,550
Investment income	9,372	9,933	9,612	6,690	5,003
Total revenues[2,3]	31,144	31,895	30,707	22,374	17,179
Income before tax	1,849	3,243	2,839	2,181	1,634
Net income[3]	1,547	2,397	2,066	1,570	1,247
Net income per common share[4]					
Net income	1.08	1.76	1.57	1.28	1.08
Net income, fully diluted	1.08	1.75	1.55	1.26	1.06
Amounts based upon US GAAP[1]					
Premium income	10,191	10,214	7,509	5,784	4,928
Investment income	8,640	11,001	12,576	7,013	5,656
Total revenues[2,3]	19,247	21,599	20,457	13,501	11,210
Income from continuing operations before tax	(691)	1,158	3,295	1,950	1,928
Net income	(2,230)	632	2,588	1,601	1,471
Net income per common share[4]					
Basic	(1.61)	0.46	1.97	1.31	1.28
Diluted	(1.61)	0.46	1.94	1.29	1.25

	Years ended December 31,				
	2002	2001	2000	1999	1998
	(in million EUR, except per share amounts)				
Consolidated balance sheet information:					
Amounts based upon Dutch accounting principles[1]					
Total assets	238,206	264,061	244,216	228,808	131,196
Technical provisions	197,642	220,523	206,097	190,145	102,959
Long-term liabilities (including current portion)	6,480	7,855	6,528	5,735	3,891
Shareholders equity[5]	14,231	15,923	12,844	13,543	7,934
Amounts based upon US GAAP[1]					
Total assets	268,316	299,603	281,580	262,694	138,083
Technical provisions	217,022	240,297	225,602	206,007	108,355
Long-term liabilities (including current portion)	7,220	10,462	15,749	14,770	3,804
Trust pass-through securities (TRUPS) and monthly income preferred stock (MIPS)	491	584	553	512	87
Shareholders equity	17,554	20,669	18,965	17,050	9,612
Other:					
Life insurance in force	1,244,741	1,248,452	1,163,443	972,560	300,466
Investment income for the account of policyholders[2]	(11,524)	(9,515)	(3,495)	13,533	8,466
Annuity deposits, including GIC/funding agreements[2]	28,419	26,381	25,506	17,445	6,723
Share capital	226	224	215	216	185
	(in thousands)				
Number of common shares:					
Balance at January 1	1,422,253	1,350,524	668,426	583,180	289,863
Stock split			668,426		289,863
Issuance of shares		55,000		82,546	
Stock dividends	22,326	16,484	13,194	2,319	2,195
Exercise of options		245	478	381	1,259
Balance at end of period	1,444,579	1,422,253	1,350,524	668,426	583,180

1 Our consolidated financial statements were prepared in accordance with Dutch accounting principles, which differ in certain respects from US GAAP. See Note 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 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.

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

4 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, 2002. Diluted per share data give effect to all dilutive securities.

5 The figures for 1998 through 2000 have not been adjusted for the change in accounting for dividends.

Dividends

AEGON has declared interim and final dividends for the years 1998 through 2002 in the amounts set forth in the table below. Dividends in US dollars are calculated based on the Midpoint Rate (the rate settled each working day at 14:15 hours by the Dutch Central Bank) on the business day following the shareholder meeting approving the relevant interim and final dividend.

	EUR per common share[1]			USD per common share[1]		
Year	**Interim**	**Final**	**Total**	**Interim**	**Final**	**Total**
1998	0.21	0.30	0.51	0.23	0.31	0.54
1999	0.25	0.35	0.60	0.27	0.31	0.58
2000	0.30	0.44	0.74	0.27	0.39	0.66
2001	0.37	0.46	0.83	0.33	0.41	0.74
2002	0.37	0.37[2]	0.74[2]	0.36	0.34[2]	0.70[2]

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

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

On August 8, 2002, AEGON declared an interim dividend for 2002 of EUR 0.37 per common share. AEGON has proposed to its Annual General Meeting of Shareholders, scheduled to occur on April 17, 2003, that the full year 2002 dividend be set at EUR 0.74 per common shares, resulting in a final dividend for 2002 of EUR 0.37 per common share.

AEGON has proposed that the EUR 0.37 final dividend for 2002 be paid entirely in common shares. The final dividend will entitle holders of common shares on the record date to receive one new common share for each 25 common shares held. AEGON announced on March 6, 2003 that it is currently considering proposing a dividend for 2003 of EUR 0.40 to be paid in cash or common shares depending on its capital position at that time.

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 5.0% for 2002. Applying this rate to the weighted average paid-in capital of our preferred shares during 2002, taking into account the increase in paid-in capital on the preferred shares as a result of the September 2002 restructuring described in Item 4. Information on the Company Recent Developments and Capital Expenditures and Divestments , the annual dividend on our preferred shares payable for 2002 will be EUR 30 million, as compared to an annual dividend in 2001 prior to such restructuring of EUR 3 million. The rate for annual dividends on preferred shares in 2003, as determined on January 2, 2003, is 4.5% and the annual dividend on preferred shares for 2003, based on the paid-in capital on the preferred shares on January 2, 2003, will be EUR 95 million.

Exchange Rates

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

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

As at March 25, 2003 the USD exchange rate[1] was EUR 1 = USD 1.0673

The high and low exchange rates[1] for the US dollar per euro for each of the last six months through February 2003 are set forth below:

	Sept. 2002	Oct. 2002	Nov. 2002	Dec. 2002	Jan. 2003	Feb. 2003
High (USD per EUR)	0.9959	0.9881	1.0139	1.0485	1.0861	1.0875
Low (USD per EUR)	0.9685	0.9708	0.9895	0.9927	1.0361	1.0708

The average exchange rates[1] for the US dollar per euro for the five years ended December 31, 2002, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate
1998	1.1116
1999	1.0588
2000	0.9207
2001	0.8909
2002	0.9495

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.

Risk Factors

<u>Risks related to our business</u>

Interest rate volatility may adversely affect our profitability

In periods of increasing interest rates, policy loans and surrenders and withdrawals may tend to increase as policyholders seek investments with higher perceived returns. This process may result in cash outflows requiring that we sell invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realized investment losses. Any investment loss due to interest rate changes is deferred and amortized over the remaining average life of the assets sold under Dutch accounting principles. Regardless of whether we realize an investment loss, these cash payments would result in a decrease in total invested assets and a decrease in net income. Among other things, premature withdrawals may also cause us to accelerate amortization of policy acquisition costs, which would also reduce our net income.

Conversely, during periods of declining 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 fixed income investments likely will have declined in parallel with market interest rates. In addition, mortgages and bonds in the investment portfolio will be more likely to be repaid or redeemed as borrowers seek to borrow at lower interest rates, and we may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, during periods of declining interest rates, profitability may suffer as a result of a decrease in the spread between interest rates credited to policyholders and returns on the investment portfolio.

The profitability of spread-based business depends in large part upon the ability to manage interest rate spreads, and the credit and other risks inherent in the investment portfolio. We may not be able to successfully manage interest rate spreads or the potential negative impact of those risks.

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

Fluctuations in the securities markets and other economic factors have adversely affected and may continue to adversely affect our profitability as well as our sales of our separate account unit linked products, pension products, variable annuities, variable life insurance, and mutual funds. The level of volatility in the markets in which we invest and the overall investment returns earned in those markets also affect our profitability and can reduce our shareholders equity. In particular, declines in the stock or bond markets have required and may continue to require us to accelerate amortization of policy acquisition costs and to establish additional reserves for minimum guaranteed benefits, which reduces our net income and can reduce the level of surplus funds we carry on our balance sheet. These market conditions may also significantly reduce the popularity of our savings and investment products, which could lead to lower sales and net income.

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

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

As an international life insurance company, we are subject to currency risk. Equity held in subsidiaries is kept in local currencies to the extent shareholders equity is required to satisfy regulatory and self-imposed capital requirements. We hold the remainder of our capital base (capital securities, subordinated and senior debt) in various currencies in amounts we believe correspond approximately to the book value of our activities in those currencies to minimize any impact on our equity ratios. Currency risk in the investment portfolios is managed using asset/liability matching principles. In 2000, we discontinued hedging the income streams from the main non-Dutch units and, as a result, our earnings may fluctuate due to currency translation. The principal exposure we have to currency fluctuations are the differences between US dollars and euro as well as U.K. pounds and euro.

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

Claims paying ability and financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade (or the potential for such a downgrade) of us or any of our rated insurance subsidiaries could, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies, adversely affect relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services, 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 increase our cost of funding.

Changes in government regulations in the countries in which we operate may affect our 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 shareholders. Changes in existing insurance laws and regulations may affect the way in which we conduct our business and the products we may offer. In addition, changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may also adversely affect our ability to sell new policies or our 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. See Item 4 of this Annual Report under the caption Regulation for each geographic area in which we operate.

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

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

Defaults in our fixed maturity and mortgage loan portfolios may adversely affect profitability

Issuers of fixed maturity securities and mortgage loan borrowers have defaulted and may continue to default on principal and interest payments with respect to securities we hold. Significant terrorist actions, as well as general economic conditions, have led to and may continue to result in significant decreases in the value of the securities in which we invest. A continuation of or increase in defaults on, or other reductions in the value of, these securities could have a material adverse effect on our business, results of operations and financial condition.

Liquidity risk of certain investment assets

Our investments in privately placed securities, mortgage loans, real estate, including real estate joint ventures and other limited partnership interests are relatively illiquid. If we require significant amounts of cash on short notice in excess of our normal cash requirements, we may have difficulty selling these investments at attractive prices, in a timely manner, or both.

We may be unable to manage our risks successfully through derivatives

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

The payment of dividends to shareholders and payments on our indebtedness may be affected by limitations on subsidiaries regarding the payment of dividends

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

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. 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 US Congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal of the estate tax continues to be discussed, which could have an impact on insurance products and sales in the United States. Recent changes in tax laws in The Netherlands have reduced the attractiveness of certain of our individual life products. The current administration in The Netherlands has indicated that it is contemplating further changes in law that would eliminate the tax advantages of certain of our products, including group savings products. Any changes in US or Dutch tax law affecting our products could have a material adverse effect on our business and results of operations.

Competitive factors may adversely affect our market share

Competition in our business segments is based on service, product features, price, commission structure, financial strength, claims paying ability, ratings and name recognition. We face intense competition from a large number of other insurers, as well as non-insurance financial services companies such as banks, broker-dealers and asset managers, for individual customers, employer and other group customers and agents and other distributors of insurance and investment products. The recent consolidation in the global financial service industry has also enhanced the competitive position of some of our competitors by broadening the range of their products and services, and increasing their distribution channels and their access to capital. In addition, development of alternative distribution channels for certain types of insurance and securities products, including through the Internet, may result in increasing competition as well as pressure on margins for certain types of products. These competitive pressures could result in increased pricing pressures on a number of our products and services, particularly as competitors seek to win market share, and may harm our ability to maintain or increase our profitability.

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

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

Judgments of US courts may not be enforceable against us

Judgments of US courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in Dutch courts. As a result, our shareholders that obtain a judgment against us in the United States may not be able to require us to pay the amount of the judgment.

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

Our insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse for the ceded amount in the event the claim is paid. However, our insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it.

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

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

Our acquisitions could result in the incurrence of additional indebtedness, costs, contingent liabilities and amortization expenses related to goodwill and other intangible assets. Divestitures of existing operations could result in our assuming or retaining certain contingent liabilities. All of the foregoing could materially adversely affect our businesses, financial condition and results of operations. Future acquisitions may also have a dilutive effect on the ownership and voting percentages of existing shareholders.

There can be no assurance that we will successfully identify suitable acquisition candidates or that we will properly value acquisitions we make. We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed once negotiations have commenced.

Risks Related to our Common Shares

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

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

investor perception of our company, including actual or anticipated variations in our revenues or operating results;

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

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

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

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

potential litigation involving us or the insurance industry generally;

changes in financial estimates and recommendations by securities research analysts;

fluctuations in foreign exchange rates and interest rates;

the performance of other companies in the insurance sector;

regulatory developments in The Netherlands, the United States, the United Kingdom and other countries;

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

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

general market conditions.

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

We have no current plans for an offering of our common shares or of rights to subscribe for our common shares other than the proposed stock dividend for the year 2002 and the possible sale of repurchased own shares (treasury stock). However, it is possible that we may decide to offer additional common shares in the future, for example to effect an acquisition. In connection with Vereniging AEGON s refinancing in September 2002, it entered into an equity repurchase facility (Repo Facility) and a back-up credit facility (Back-up Facility). As is customary in these repurchase agreements, if sufficient collateral is not maintained by Vereniging AEGON (which in this case is based on the number of common shares and the prevailing share price) and amounts are not available under the Back-up Facility, the lenders under the Repo Facility may dispose of our common shares held by them under the Repo Facility in order to satisfy amounts outstanding. An additional offering of common shares by us, sales of common shares by significant shareholders or by lenders to Vereniging AEGON, or the public perception that an offering or such sales may occur, could have an adverse effect on the market price of our common shares.

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

Prior to September 2002, Vereniging AEGON (the Association), our largest shareholder, beneficially owned approximately 52% of our voting shares and thus held voting control over us. Upon completion of the transactions described in Item 4. Information on the Company Recent Developments and Capital Expenditures and Divestments in September 2002 and as of the date of this report, the Association beneficially owned approximately 33% of our voting shares (excluding treasury shares).

In addition, we have proposed certain changes to our corporate governance structure and our relationship with the Association for consideration and approval at our next annual general shareholders meeting, pursuant to which the Association s voting power under normal circumstances, based on the current numbers of outstanding and voting shares, will be reduced to 23.6% of the votes exercisable in our general meeting of shareholders. However, this reduction in voting percentage would not be applicable in all circumstances. In certain limited circumstances (such as the acquisition of 15% of our voting shares, a tender offer for our shares or a proposed business combination, each by any person or group of persons whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), the Association s voting rights will increase to 33%. See Item 4. Information on the Company Recent Developments and Capital Expenditures and Divestments .

Consequently, the Association may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

- adopting amendments to our articles of incorporation;
- approving a consolidation or liquidation;
- approving a tender offer, merger, sale of all or substantially all of our assets or other business combination;
- in particular during the periods when the Association is entitled to exercise its increased voting rights, it will have sufficient voting power to veto any proposal relating to the following matters:
  - rejecting Supervisory Board nominations for membership on the Supervisory Board and Executive Board;
  - appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination; and
  - suspending or removing an Executive Board or Supervisory Board member other than pursuant to a Supervisory Board proposal.

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

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

Convertible securities we have issued or may issue may influence the market price for our common shares

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

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the AEGON Group

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

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

Our headquarters are located at:

AEGONplein 50

PO Box 202

2501 CE The Hague

The Netherlands

Telephone number: + 31 70 344 3210

Internet site: *www.aegon.com*

The AEGON Group, through its member companies, is a leading international insurance group with its headquarters in The Hague, the Netherlands. The principal market for AEGON s common shares is Euronext Amsterdam. AEGON s common shares are also listed on the NYSE and the Frankfurt, London, and Tokyo exchanges as well as the SWX Swiss Exchange. Ranked by total assets as at December 31, 2001 (source: The Wall Street Journal, October 14, 2002), the AEGON Group is one of the world s ten largest listed insurance groups. The AEGON Group has major operations in the United States, the Netherlands, the United Kingdom and Canada. The AEGON Group is also present in Hungary, Spain, Taiwan, Germany, Belgium and China and has representative offices in India and Japan. With roots dating back 150 years, the AEGON Group has extensive experience in the insurance industry. Crucial differences exist in local markets and for this reason the AEGON Group emphasizes a decentralized organization structure. Our operating companies, with knowledgeable and experienced local management and employees, market their own unique products using tailored distribution channels.

Close to 90% of the AEGON Group s core business is life insurance and pension-related savings and investment products. The AEGON Group is also active in accident and health insurance, property and casualty insurance and limited banking activities. Consistent with a policy of spreading risks to achieve reliable performance, we seek to maintain a good balance of business within the AEGON Group, both geographically and among product groups.

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

For information on our business segments, see Note 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.

Strategy

Our strategy can be summarized as follows:

Commitment to Core Business

Insurance with a strong emphasis on life insurance, pensions and related savings and investment products. AEGON (AEGON NV or its subsidiaries as appropriate) focuses on the financial protection and asset accumulation needs of its clients.

Decentralized Organization

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

Emphasis on Profitability

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

International Expansion

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

Recent Developments and Capital Expenditures and Divestments

Restructuring of Relationship with the Association

In September 2002, AEGON effected a non-dilutive capital restructuring whereby the Association sold 350 million common shares, of which 143.6 million common shares were sold by the Association directly in a secondary offering outside the United States and 206.4 million shares were purchased by AEGON from the Association and subsequently sold by AEGON in a global offering. The purchase price for the 206,400,000 common shares sold by the Association to AEGON was EUR 2,064,000,000, which amount the Association contributed as additional paid-in capital on AEGON s existing preferred shares, all of which the Association holds. The Association and AEGON agreed to set off their respective payment obligations to each other; accordingly, no cash was exchanged between the Association and AEGON as part of these transactions. As a result of these transactions, the Association s beneficial ownership interest in our common shares decreased from approximately 37% to approximately 12% and its beneficial ownership interest in our voting shares (which includes our common shares and preferred shares) decreased from approximately 52% to approximately 33% (excluding treasury shares).

In addition, AEGON has proposed certain changes to its corporate governance structure and its relationship with the Association for consideration and approval at AEGON s annual general shareholders meeting, scheduled to occur on April 17, 2003. If approved by the annual general meeting, the Association s interest in AEGON s voting share capital will change in the following ways:

The 440,000,000 preferred shares in AEGON s share capital currently held by the Association will be converted into 211,680,000 new preferred shares and re-denominated as class A preferred shares. The nominal value of the class A preferred shares will be adjusted proportionately per preferred share from EUR 0.12 to EUR 0.25. The paid-in capital per share will be adjusted proportionally per new class A preferred share so that the aggregate paid-in capital remains unchanged.

The voting power associated with each remaining preferred share (including the class A preferred shares held by the Association and the class B preferred shares issuable to the Association under the option agreement discussed below) will be adjusted proportionately to 2.08 votes per preferred share.

AEGON and the Association will enter into a voting rights agreement, pursuant to which the Association will voluntarily relinquish its right to cast 2.08 votes per class A preferred share or class B preferred share. Instead, the Association will agree to cast one vote per preferred share, except in the event of a special cause (such as the acquisition of 15% of our voting shares, a tender offer for our shares or a proposed business combination by any person or group of persons whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board). In the event a special cause has occurred, the Association will retain its right to exercise the full voting power of 2.08 votes per preferred share. Accordingly, if the proposed changes are approved by AEGON s annual general meeting, under normal circumstances, based on the current number of outstanding voting shares held by the Association, the Association will be entitled to cast 23.6% of the votes exercisable in AEGON s general meeting of shareholders. In the event of a special cause , the Association s voting rights will increase to approximately 33% for up to six months per special cause . The Association will determine in its sole discretion whether a special cause exists and if it is of the opinion that a special cause exists, it will communicate this to the general meeting of shareholders. The voting rights agreement can be amended only with the approval of AEGON s general meeting of shareholders.

AEGON and the Association will amend their existing option agreement, which currently gives the Association the right to acquire additional preferred shares to prevent dilution of interest in AEGON s voting share capital to below 50% as a result of a new share issuance by AEGON. The amended option agreement will limit this anti-dilution protection to a level at which, whenever the Association exercises the full voting power attached to its preferred shares, the voting power of its common and preferred shares taken together will be 33%.

Capital Expenditures and Divestitures

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

On December 2, 2002 AEGON announced that an agreement had been reached with Paramount Life & General Insurance Corporation in the Philippines for the immediate transfer of AEGON s activities in the Philippines. The agreement includes the transfer of the existing book of business. Approval of the relevant regulatory authorities has been received for this transaction.

On September 5, 2002, AEGON and La Mondiale, a French mutual life insurance company that specializes in life insurance and pensions, announced that they had entered into an alliance for the development of new pension ventures in Europe. To effectuate this alliance, AEGON on December 26, 2002 acquired a 20% participation in La Mondiale Participations, the holding company under which the non-mutual activities of La Mondiale have been grouped. The agreement provides for extension of the participation to 35% in the next few years.

On May 9, 2002, AEGON and the China National Offshore Oil Corporation (CNOOC) announced the establishment of a joint venture for life insurance activities in China. CNOOC and AEGON entered this joint venture as equal partners and will each contribute 50% to the joint venture s initial capital base of approximately EUR 27 million. The joint venture s headquarters will be located in Shanghai and, subject to receiving regulatory approval, will commence operations in the course of 2003.

Effective December 31, 2001 the AEGON Group sold its partnership interests in two Mexican companies, Seguros Banamex AEGON (a provider of life insurance) and Afore Banamex AEGON (a provider of pension fund management) for USD 1.24 billion to Citigroup s Grupo Financiero Banamex in Mexico. In addition, AEGON received USD 40 million as dividends on the 2001 profits of the joint venture companies.

AEGON s subsidiary, Life Insurance (Taiwan) Inc. and AXA National Mutual in Taiwan reached an agreement on October 10, 2001 for the acquisition by Life Insurance (Taiwan) Inc. of AXA s Taiwanese life insurance activities. The acquisition was completed at the end of 2001.

In March 2001, the AEGON Group announced the acquisition through a US subsidiary of J.C. Penney s Direct Marketing Services operations for USD 1.3 billion in cash. As part of the agreement, J.C. Penney and AEGON, through its Commonwealth General subsidiary, entered into a 15-year strategic marketing alliance designed to offer an expanded range of financial and membership services products to J.C. Penney customers. The J.C. Penney Direct Marketing Services businesses operate as a part of the AEGON USA companies. AEGON paid for the acquisition in cash. The transaction was financed with the proceeds of an equity offering of 55 million AEGON common shares on May 30, 2001.

In March 2000, AEGON announced the sale of its banking subsidiary, Labouchere, to Dexia for approximately EUR 900 million. The transaction was completed in August 2000. Only the first quarter net earnings from Labouchere, totalling EUR 31 million, were included in AEGON s results for 2000.

Business Overview

Product-line Overview

General Account Products

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

Traditional Life Products. Traditional life products contributed 79% of AEGON s income before tax in 2002. These products are marketed to individuals, pension funds, companies and banks, through (independent) agents, brokers, direct response, worksite marketing and financial institutions in the United States, the Netherlands, the United Kingdom, Canada, Hungary, Spain and Taiwan.

Permanent life insurance provides life-long financial protection. Most permanent policies have a cash value feature with 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. Whole life insurance is a common form of permanent life insurance where premiums generally remain constant over the life of the policy. Universal life insurance is another form of permanent life insurance that has either a flexible or single premium. The contract has an adjustable benefit feature that allows the customer great flexibility on when to pay premiums and the amount of the premium, subject to a minimum and a maximum. In general, the more the customer pays in premium, the greater the cash value will be. The interest rate at which the cash value accumulates is adjusted periodically. Universal life insurance has a stated minimum interest rate that will be paid on the policy s cash value. An indexed version of universal life is also offered where the credited rate is tied to the change, either positive or negative, in a designated stock market index. There is no minimum interest for indexed universal life. Universal life products are sold to individuals, pension funds, companies, and banks.

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

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

Fixed Annuities. Fixed annuities contributed 9% of AEGON s income before tax in 2002. Fixed annuities are marketed to individuals and pension funds through financial institutions, (independent) agents, brokers and direct response in the United States and Canada.

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

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

GICs and Funding Agreements. Guaranteed Investment Contracts (GICs) and Funding Agreements (FAs) contributed 15% of AEGON s income before tax in 2002. GICs and FAs are marketed to tax qualified pension funds and financial institutions and non-tax qualified money market funds, municipalities and oversees 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 brokers, direct and (independent) agents in the United States and internationally from the United States.

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

Products for the Account of Policyholders

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

Life Products for the Account of Policyholders. Life products for the account of policyholders contributed 20% of AEGON s income before tax in 2002. These products are sold to individuals through (independent) agents, marketing organizations, financial institutions, worksite marketing, franchise organizations and brokers in the United States, the Netherlands, the United Kingdom, Canada, Spain, Hungary and Taiwan.

Life products for the account of policyholders include several forms of life insurance and pension products whereby death benefits and cash values vary with the performance of a portfolio of investments. Premiums can be allocated among a variety of investments that offer different degrees of risk and reward, including stocks, bonds, combinations of both, or investment products that guarantee interest and principal. The customer retains the investment risk and AEGON earns a return from investment management fees, cost of insurance 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 (North America), tontine plans (the Netherlands) and unit-linked life insurance (Europe).

Variable universal life products are similar to universal life products, but include investment options and the maintenance of investment assets in separate accounts (also known as investments for the account of policyholders) that segregate the assets and liabilities from the general account.

Tontine plans are linked pure endowment savings contracts, with a tontine bonus structure. On death 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 for on a yearly risk premium basis. The amount of death benefit that is charged for is equal to the total benefit paid to the policyholder plus any unrecouped acquisition costs. On death the balance in the investment account is not paid out to the policyholder s estate, but is shared out at the end of the year to the surviving policyholders of the specific series (a new series starts at the beginning of each calendar year) to which the deceased policyholder belonged. On survival to the maturity date, a benefit equal to the fund value, inclusive of tontine bonuses, is paid out. This is subject to a minimum of the premiums paid, if the Mix-fund was chosen.

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 minus EUR 462 million to AEGON s income before tax in 2002. Variable annuities are sold to individuals and pension funds through (independent) agents, marketing organizations, brokers and financial institutions in the United States and Canada.

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

Premiums paid on variable annuity contracts are invested in funds offered by AEGON, including bond and stock funds and selected by a client based on the client s preferred level of risk. The account value of the variable annuities reflects the performance of the funds. AEGON earns mortality charges for providing a minimum guaranteed death benefit and may also provide guaranteed income benefits upon annuitization. This category includes segregated funds (Canada).

Fee Business. Fee business contributed EUR 2 million (or 0.1%) to AEGON s income before tax in 2002. The products are sold to individuals, pension funds, asset managers through (independent) agents, marketing organizations and financial institutions and direct marketing in the United States, Canada, the Netherlands, the United Kingdom and Hungary.

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

Our US operations sell group and individual fixed annuity and 401(k) contracts to small and medium-sized institutions. Group fixed annuities are purchased with a single premium that funds the annuities for a group of employees. The single premium includes a fee for the administrative services to be provided by AEGON after the annuity is purchased. 401(k) contracts sold to small employers are principally sold on separate accounts and allow the purchaser access to the family of mutual funds offered by AEGON.

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

A synthetic GIC is an off-balance sheet fee-based product sold primarily to tax qualified plans. The plan sponsor retains ownership and control of the invested assets. AEGON 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.

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.

Accident and Health Insurance. Accident and health insurance contributed 15% to AEGON s income before tax in 2002. Accident and health products are sold to individuals and companies through (independent) agents, brokers and direct marketing in the United States, the Netherlands, Spain and Hungary.

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

AEGON also offers cancer treatment, heart disease and intensive care policies 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 provide benefits to a customer 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.

General Insurance. General insurance contributed 3% to AEGON s income before tax in 2002. General insurance is sold to individuals and companies through (independent) agents and brokers in the Netherlands, Hungary and Spain.

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

Banking Products. Banking products contributed EUR 8 million (or 0.4%) to AEGON s income before tax in 2002. Customers include individuals and companies in the Netherlands. Distribution channels are direct marketing, (independent) agents, retailers and franchise organizations.

AEGON s banking products include savings accounts and investment contracts (i.e. share lease products). Both products generate investment-spread income for AEGON. Savings accounts offer attractive interest rates while retaining flexibility to withdraw cash with limited restrictions. Security lease products provide a combination of monthly interest payments on a loan and a final payment based on the performance of the investments. Banking products also include investment products that offer index-linked returns and generate fee income on the performance of the investments.

Supervision

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

Organizational Structure

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.

AEGON USA

General History

AEGON s life insurance operations in the United States are referred to collectively as AEGON USA.

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

Total employment of AEGON USA as at December 31, 2002 was 14,536, including 3,074 agents.

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

AUSA Life Insurance Company, Inc., Purchase (New York USA)

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

Monumental Life Insurance Company, Baltimore (Maryland USA)

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

Stonebridge Casualty Insurance Company, Columbus (Ohio USA)

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

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

Transamerica Life Insurance Company, Cedar Rapids (Iowa USA)

Transamerica Life Insurance Company of New York (New York USA)

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

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

Veterans Life Insurance Company, Springfield (Illinois USA)

First AUSA Life Insurance Company, Baltimore (Maryland USA)

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

Operationally, our US subsidiary companies contain five operating groups acting through one or more of the AEGON USA life insurance companies: Agency, Direct Marketing Services, Financial Markets, Institutional Products and Services, and Pension and Reinsurance. The group structure enables AEGON USA to look across the organization more easily to reduce redundancies, 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.

The expansion of product portfolio and distribution through targeted acquisitions continues to be an integral part of AEGON USA s long-term strategy. Building on competitive products, strong distribution and talented people, the operations that have joined AEGON USA through acquisitions are successful additions that continue to deliver strong performance and foster new growth opportunities.

Recent Developments and Capital Expenditures and Divestments

In 2001 the AEGON USA companies took a major step to extend expertise in direct marketing, a targeted marketing approach that is well suited to the life and supplementary insurance products, and database management with the acquisition of J.C. Penney s direct marketing insurance operations. The integration of the J.C. Penney activities with the AEGON USA direct marketing unit has established AEGON as a large direct marketing organization of life and health products in the U.S.

AEGON USA acquired Transamerica in 1999. The addition of Transamerica s US life reinsurance operations represented an immediate leadership position in this market (source: Munich Re report on U.S. life reinsurers) The acquisition also significantly strengthened AEGON USA s agent penetration among higher income customer segments and enhanced the size and efficiency scale of its fixed annuity, long-term care, worksite marketing, 401(k) pension and structured settlements businesses, while also bringing breadth and depth to distribution, enhanced product offerings, and brand recognition. The acquisition also created cost reduction opportunities for AEGON USA and contributed valuable expertise, extensive market knowledge and successful business practices.

AEGON terminated its Mexican joint ventures, Seguros Banamex AEGON and AFORE Banamex AEGON in 2001 with Citigroup s acquisition of parent company Grupo Financiero Banamex (Banacci). AEGON was an early entrant in the underserved Mexican insurance market in 1995, and together with Banacci, became a leading provider of insurance and retirement savings products

Key Priorities for 2003

For 2003, AEGON Americas will pursue growth in our core business at an acceptable risk profile. In addition, the various cost saving initiatives will be vigorously pursued. Broadening and growing distribution relationships will accelerate, as enhanced technology capabilities and management emphasis will bring more of AEGON USA s product offerings to each distribution channel.

Products and Distribution

Agency Group

The Agency Group divisions offer a wide range of insurance products through career and independent agents, registered representatives, financial advisors and specialized marketing organizations, and target distinct market segments ranging from home service to the advanced market that serves clients with higher net worth by providing various tax and estate planning products. The Agency Group consists of AEGON Financial Partners, LIICA Agency/Intersecurities, Transamerica Insurance & Investment Group, World Financial Group, Monumental Division and Long Term Care.

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 the former Equity Group, Individual Division and Transamerica Insurance & Investment Group. AFP provides services to LIICA Agency/Intersecurities (formerly sales and marketing for the Individual Division), Transamerica Insurance & Investment Group and World Financial Group (formerly sales and distribution for the Equity Group).

LIICA Agency/Intersecurities targets middle to upper-income markets, selling primarily interest-sensitive and ordinary life insurance. For more than 40 years, LIICA Agency has focused on creating value for individuals, families and businesses by providing personalized insurance and financial products, resources and services. Through its agency-building system, LIICA Agency has carried outs its mission by providing its more than 2,200 sales representatives with quality products, technology tools, and high levels of home office training and support.

During the past few years, the Independent Producer Group has seen tremendous growth in both recruiting and sales. This unit, which is focused on developing relationships with independent marketing organizations and managing general agents throughout the United States, has grown to nearly 13,000 appointed representatives.

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

Other distribution groups include National Bond & Trust Company, a licensed US Savings Bond issuing agent for the US Treasury Department, has provided access to the payroll deduction market. Zahorik Company, a registered broker-dealer based in Pasadena, California, specializes in retirement planning, deferred compensation programs and insurance and employee benefit programs for corporate and non-profit organizations. The NOL distribution group provides final expense coverage to the senior market.

Transamerica Insurance & Investment Group (TIIG) distributes term, universal life, fixed and variable life insurance; fixed and variable annuities; and other products to its targeted niche market of older, affluent customers. TIIG maintains a unique relationship with its primary distribution channel, the General Agencies. This wholesale distribution system connects TIIG with over 45,000 licensed and active producers. Sales of TIIG s variable products are supported by a network of broker-dealers, including the broker-dealer channel, which includes Transamerica Financial Advisors, Inc., an affiliated broker-dealer with 950 representatives. TIIG currently has a National Accounts initiative underway for its fixed and variable products, focusing on establishing and maintaining business relationships with key national accounts and driving marketing programs aimed at increasing production from sales representatives. TIIG Distributors have been formed to penetrate this market and is made up of general agencies, with wholesalers dedicated to serving this channel with Transamerica s programs and products.

World Financial Group (WFG) targets the middle-income market, selling variable universal life insurance, variable annuities and mutual funds. WFG was formed in June 2001 by purchasing the distribution assets, including contractual arrangements with distribution channels, of former partner World Marketing Alliance, Inc. WFG affords its more than 50,000 associates, (8,500 of whom are securities registered with World Group Securities, Inc., a registered broker-dealer), the opportunity to build financial services and insurance businesses on their own terms. Through its alignment with many of the most respected product provider companies, including Western Reserve Life Assurance Co. of Ohio, WFG s associates work with individual clients to create a program of products that meet their financial goals.

Monumental Division targets the underserved, lower and middle-income markets, selling individual life and supplemental health insurance through three distinct distribution systems: Career Agency, PreNeed and Military. Approximately 2,600 career agents and 170 field leadership teams in 22 states reflect the diversity found in the communities they serve. The PreNeed unit sells life insurance products through funeral directors and their agents to prefund funerals. In the Military unit, former military officers market life insurance and retirement savings products to commissioned and non-commissioned officers based in the United States and abroad.

The Long Term Care Division provides insurance products designed to meet the long-term health care needs of consumers during retirement. Long-term care insurance products provide coverage primarily for care services provided at home, in an assisted living facility or in a nursing home. This division has been active in the market since the late 1980 s and with the integration of the Transamerica Long Term Care operations, it is now among the top six US providers of long-term care insurance products (Life Plan 2002 annual survey of Long Term Care Insurers). Products are sold directly through independent brokerage agents, captive/career agents and general agents. The division continues to develop new and existing relationships with employers, financial institutions, teacher associations and other entities where a third-party endorsement is valuable. The division has also expanded into web-based direct sales.

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 to a highly targeted approach using sophisticated database technology to increase its ability to develop niche markets and design products positioned to meet specific customers needs. Customers can purchase an extensive portfolio of products through direct mail, point-of-service, the Internet and telemarketing. Products are also marketed using the endorsement of sponsoring organizations such as financial institutions, auto dealers and various membership associations. Although the direct delivery insurance market is a relatively small and mature sector, ADMS produces very strong earnings and returns, primarily through an expense-efficient infrastructure and successful integration of two significant acquisitions (Providian s direct marketing operations in 1997 and the J.C. Penney direct marketing operations in 2001) that reduced redundancies and leveraged complementary strengths. The unit counterbalances AEGON USA s interest-sensitive business and can potentially complement the Agency Group with sales leads.

Financial Markets Group

AEGON USA s Financial Markets Group (FMG) consists of Transamerica Financial Institutions, Transamerica Capital, Transamerica Investment Management, LLC, Advisor Resources, Extraordinary Markets and Transamerica Worksite Marketing.

Transamerica Financial Institutions (TFI) works in partnership with many of the largest banks in the United States to market fixed and variable annuities and life insurance through the banking channel. TFI was an early entrant into the bank-sold annuity market and now ranks as the number two producer of annuities sold through banks (Kehrer Report, YTD 2002 rankings). Recent product focus has been on the 50 years and older segment and proprietary bank annuities, whereby AEGON USA develops an annuity specifically branded for the individual financial institution and the financial institution earns fee income from the marketing and investment management functions. Transamerica Capital (TCI) serves as the wholesale marketing and sales arm to the competitive brokerage firm distribution channel. TCI works directly with leading New York wirehouse firms, regional and independent broker-dealers and independent financial planners to help them market, promote and sell mutual fund and variable annuity products to their clients. Transamerica Investment Management is a registered investment advisor and provides investment management services to mutual funds, institutional accounts, pension funds, variable annuity and variable life insurance separate accounts.

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

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.

Institutional Products and Services Group

The Institutional Products and Services Group includes AEGON Institutional Markets Division, Structured Settlements and AEGON USA Investment Management, LLC.

AEGON Institutional Markets Division (IMD) is the combined institutional asset accumulation operation of Commonwealth General and institutional markets operation of Transamerica. IMD is well positioned and long established in the competitive and mature institutional retirement and savings products market. IMD entered the GIC market with a distinctive floating-rate GIC and has expanded into traditional fixed-rate GICs, funding agreements and fee-based businesses like synthetic GICs, in which IMD is the largest insurance company issuer (source: reports of LIMRA International). While new entrants in this market have increased competition and margin compression, IMD has been able to enhance its leadership position through product customization, strong service capabilities and profitable pricing. 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.

The Structured Settlements division develops immediate annuity and structured annuity products that provide a stream of tax-free payments tailored to the needs of personal injury victims and their families. These annuities are issued in settlement of lawsuits and workers compensation claims. Ratings, financial strength, service and property/casualty-approved lists are key to the structured settlements market.

AEGON USA Investment Management, LLC provides investment management and reporting services for over 96% of the investment assets of AEGON USA and its insurance company subsidiaries. Assets supporting each major product group are managed as a separate portfolio, each with its own investment policy tailored to the respective liability. Liability characteristics that are considered when forming the investment policy include interest rate sensitivity, optionality and liquidity needs. The match between assets and liabilities is monitored at both the product portfolio level and the aggregate level.

Pension and Reinsurance Group

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

Diversified Investment Advisor (DIA) includes the annuity and pension operations purchased from Mutual Life Insurance Company of New York in 1993. DIA markets pension and retirement plans through its own specialist field force, focusing on mid-size to large plans in the defined contribution market, the not-for-profit and government markets and the investment advisory market. For competitive advantages in these markets, DIA focuses on participant education and its proprietary products, utilizing sub-advisors in an oversight role. DIA has used technology initiatives to provided 24/7 access to plan and account information through Diversified Direct Online and speech recognition capabilities at call centers.

Transamerica Retirement Services uses independent agents to market small 401(k) business, profit sharing, money purchase and defined benefit plans. The operation targets employers with 300 to 4,000 employees and outsources record keeping.

Transamerica Reinsurance is among the top professional life reinsurers, ranking fourth in life reinsurance in-force and fifth in assumed new business (source: Munich Re report on U.S. life reinsurers). Transamerica Reinsurance continues to advance international efforts, with a primary focus on South American and Asian markets, and provides various product development, risk management, term insurance wholesaling and asset/liability management consulting services to its reinsurance clients. The focus on large, primary insurance carriers aides in controlling expenses through economies of scale. Transamerica Reinsurance writes reinsurance directly with its ceding companies 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 client relationships. In today s highly competitive reinsurance environment, Transamerica Reinsurance distinguishes itself through its consultation services. Foreign offices have been established in Taipei (Taiwan), Seoul (Korea) and Santiago (Chile). A web-based distribution capability for private label business needs and an Irish reinsurance facility were established in 2001. An offshore affiliate, Transamerica International Re, is located in Bermuda.

Asset Liability Management

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

The key investment strategy for traditional insurance-linked portfolios is asset liability management, whereby high-quality investment assets are matched in an optimal way to the corresponding insurance liability, taking into account currency, yield and maturity characteristics as well as asset diversification and quality considerations on the one hand and the policyholders guaranteed or reasonably expected excess interest sharing on the other hand. Investment-grade fixed income securities are the main vehicle for asset liability management and AEGON USA s investment personnel are highly skilled and experienced in these investments. However, the fastest growing portion of AEGON USA s investment portfolio is money managed for the account of third parties, where the client s performance objectives frequently call for higher risk, higher return investment strategies.

The AEGON USA companies manage their asset liability management process 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 rate environments while others perform well in a falling rate environment. On the asset side, hedging instruments are continuously studied to determine if their cost is commensurate to the risk reduction they offer.

Reinsurance

Ceded Reinsurance

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

Assumed Reinsurance

The Transamerica Reinsurance Division through the Transamerica life companies has solicited life reinsurance from other companies for many years. Reinsurance is written on a facultative basis or an automatic treaty basis. Facultative reinsurance is individually underwritten by the reinsurer for each policy to be reinsured. Factors taken into account in underwriting facultative reinsurance are medical history, impairments, employment, hobbies and financial information. An automatic reinsurance treaty provides that risks will be ceded on specified blocks of business where the underlying policies meet the ceding company s underwriting criteria. In contrast to facultative reinsurance, the reinsurer does not approve each individual risk. Automatic reinsurance treaties generally provide that the reinsurer will be liable for a portion of the risk associated with specified policies written by the ceding company. Factors considered in underwriting automatic reinsurance are the product s underwriting, pricing, distribution and optionality, as well as the ceding company s retention and financial strength.

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.

The congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal continues to be discussed which could have an impact on insurance products and sales in the U.S.

The Financial Services Modernization Act was passed in November 1999. It repeals the Glass-Steagall Act of 1933 and expands the Bank Holding Company Act of 1956, allowing cross-ownership by banks, securities firms and insurance companies. As a result, there have been and in the future may be additional business combinations among banks, securities firms and insurance companies. For additional information, see -Regulation below.

In the institutional product market, AEGON USA s competitors include insurance companies, domestic and foreign banks and institutional investment advisors. AEGON USA s ability to compete in this market depends on maintaining superior or excellent financial ratings and combining investment management expertise with flexible product design and competitive pricing.

Regulation

AEGON s US insurance subsidiaries are subject to regulation and supervision in the states in which they transact business. Supervisory agencies in the various 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 the regulatory authorities and every year by their independent auditors. Substantial liability has been incurred by insurance companies based upon their past sales and marketing practices. AEGON has focused and continues to focus on these compliance issues.

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 US 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.

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. The Act, however, 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. Specifically, financial services companies must disclose their privacy policies to customers and permit these individuals to prohibit disclosure of their non-public personal information to third parties. However, exceptions to such restrictions on the use and disclosure of information do currently 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 proposed Federal, state or local laws if passed, may further restrict the use of customer information and impact sales.

Insurance holding company statutes and the regulations of each insurer s domiciliary state in the United States require periodic disclosure concerning each insurance company s ultimate controlling person (i.e., the corporation or individual which controls the domiciled insurer in each state). Such statutes also 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. AEGON is subject, by virtue of its ownership of insurance companies, to certain of these statutes and regulations. Since AEGON s primary source of income is dividends from its insurance company subsidiaries, its ability to meet its obligations and pay dividends to its shareholders may be affected by any such required approval.

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

AEGON Canada

General History

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

- life insurance;
- segregated funds;
- retail mutual funds;
- mutual fund dealership services; and
- investment portfolio management and counselling services.

The primary operating companies that comprise ACI are:

- Transamerica Life Canada;

Money Concepts (Canada) Limited;

AEGON Dealer Services Inc.;

AEGON Capital Management Inc.; and

AEGON Fund Management Inc.

ACI is a Canadian corporation that maintains its principal offices at 300 Consilium Place, Toronto, Ontario, Canada. Total employment of AEGON Canada as at December 31, 2002, was 856.

Transamerica Life Canada (TLC) offers term and tax-sheltered universal life insurance, segregated funds, guaranteed interest accounts and annuities. In a recent survey of 20 major Canadian Life Insurers TLC is ranked second in sales of individual life insurance (source: LIMRA International, Canadian Individual Life Insurance Sales, Year to Date Fourth Quarter 2002 results. Based on annualized paid premiums). As at December 31, 2002, TLC also ranks among the top four companies for segregated fund assets under management (source: Investor Economics, 2003 Annual Industry Review, Market Share of 20 Largest Individual Segregated Fund Insuring Companies.). 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 almost 100 offices across Canada, MCC is the largest franchised financial planning company in Canada. AEGON Dealer Services Inc. (ADSCI) provides advisors and distributors with mutual fund and segregated fund dealership capability to the benefit of the MCC franchises and representatives, as well as to TLC s and AEGON Fund Management Inc. (AFM) s advisors across Canada. AEGON Capital Management Inc. (ACM) was created in November 2001 through the spin off of the investment management division of TLC. ACM s mandate is to develop products and services for the institutional, high net-worth individual, pension and retail markets. AFM is the mutual fund subsidiary of ACI, offering the imaxx brand of mutual funds to Canadian investors seeking customized portfolio solutions, as well as core fund portfolios featuring select investment managers from around the world.

Recent Developments and Capital Expenditures and Divestments

In April 2000, ACI acquired NN Life Insurance Company of Canada (NN Life). NN Life s products were complementary to those of Transamerica Life Canada.

Key priorities for 2003

For 2003, the diversification of AEGON Canada s distribution channels will be a key priority. AEGON Canada will continue to emphasize advise-based independent advisor distribution while aggressively expanding into other channels through strategic alliances and acquisitions. AEGON Canada supports the largest distribution network in Canada and will leverage this distribution with new products.

Products and Distribution

Investment Products

Approximately one-third of AEGON Canada s profits are derived from its individual investment products, which currently include segregated funds, mutual funds, segregated funds offered through strategic alliances with investment management companies, guaranteed investment accounts, single premium annuities and a leverage-lending program. The imaxxFunds range of mutual funds is offered by AFM. TLC offers all of AEGON Canada s other investment products.

Segregated Funds. The sale of segregated funds continues to be the key focus of TLC s investment products unit. The Transamerica Investment Portfolio offers a wide selection of segregated funds with diverse risk/reward factors similar to mutual funds except that deposits are guaranteed at maturity and at death.

The fee revenue related to segregated funds is tied to the market values of the assets under management and, consequently, this portion of AEGON Canada s earnings varies with market volatility. The initial guarantee period is 10 years, however the period may be re-set at the clients option. Management expense ratios are not guaranteed and can be increased at TLC s discretion. A small portion of the portfolio is reinsured.

Transamerica Investment Portfolio funds, along with AEGON Canada s segregated fund alliances with three of Canada s top mutual fund companies, AIC Limited, CI Funds and TD Asset Management Inc., make up TLC s comprehensive offering of 128 segregated funds in the Canadian market.

The segregated fund marketplace experienced significant growth over the 1990s. However, in 2001 volatile equity markets, combined with new regulatory capital requirements that resulted in price increases and a significant scaling back of features, slowed the growth dramatically. The poor equity markets of 2002 have further reduced the market for segregated funds.

Mutual Funds. AEGON Canada launched AFM, along with the imaxx brand in June 2002. imaxx is a comprehensive wealth management solution for Canadian advisors, incorporating investment processes, tools and training. At the core of imaxx lies the imaxxFunds family of fifteen income and equity mutual funds.

Life Insurance Products

The Life Products business unit of TLC provides life insurance products for individuals and businesses across Canada. The portfolio includes universal life and traditional life insurance, predominately term life and permanent life insurance.

Universal Life. TLC s universal life insurance products combine life insurance protection with a variety of investment options. Canadian income tax law allows funds to grow within the universal life plan on a tax-deferred basis. The premiums are allocated to a set of different investment options that are selected by the policy owner. Many of these investment options are currently tied to equity market indices such as S&P 500. Some of the investment choices are the same as those offered in the Transamerica Investment Portfolio variable annuity contracts. In addition, TLC s universal life products offer fixed rate interest options with a guaranteed minimum return. Investment risk is borne by the customer on all but the fixed rate interest options; no minimum guaranteed return is available for investment options that tie to the equity and bond indices. TLC charges fees for mortality costs and administrative expenses, as well as investment management fees.

TLC s universal life products also offer a full complement of term life insurance riders and optional benefits. These include Accidental Death and Dismemberment, Business Guaranteed Insurability Option, Children s Insurance Rider, Waiver and Payor Waiver.

Profitability is driven by mortality margins, reinsurance, investment margins (spreads and fees), the general level of interest rates, expenses and surrender charges. Mortality margins represent the difference between amounts charged the customer to cover the mortality risk and the death benefits paid. Another important source of earnings from life insurance contracts is investment margins and the earning of the underlying general assets versus what is credited to the policy owner.

The Canadian universal life market has been experiencing significant growth over the past ten years, gradually replacing the whole life insurance market. Until the mid-1990 s, most Canadian universal life plans focused on insurance protection. As universal life plan design evolved throughout the years, the focus shifted to tax-deferred accumulation and included product features specifically for this purpose.

In November 2001, TLC introduced two universal life plans to appeal to the two primary universal life insurance markets: the accumulation and insurance protection markets.

TLC s core market has been universal life insurance that is primarily used as an investment vehicle for tax-deferred accumulation. TLC s WealthAdvantage universal life plan is designed for this market and is also attractive for businesses. It combines many of the features previously developed by Transamerica and NN Life, along with several other innovative product features.

TLC s EstateAdvantage universal life plan is designed for estate preservation purposes and also provides life insurance protection for families and businesses.

Currently the split of business is about 60% WealthAdvantage and 40% EstateAdvantage.

Term Insurance. In the survey of 20 major Canadian Life Insurers TLC is ranked second in term insurance sales with a 13.6% market share, securing its position as a dominant player in the Canadian term insurance market (source: LIMRA International, Canadian Individual Life Insurance Sales, Year to Date Fourth Quarter 2002 results. Based on annualized paid premium).

TLC s TermSelect product has been particularly strong in the family and business insurance markets due its wide range of coverage options and the flexibility to make future changes and enhancements. It provides renewable and convertible term insurance protection with a choice of five-, ten-, or twenty-year term periods. One of the more unique features is the ability for policyholders to convert, at any time, to TLC s universal life products, WealthAdvantage and EstateAdvantage.

TLC closely monitors sales against its competitors, tracking volumes of business and growth as well as market share, average face amount and average premiums. In 2002, TLC s average universal life premium was CAD 4,938, as compared to the average of the 20 companies that participated in a recent survey, which was CAD 2,627 (source: LIMRA International, Canadian Individual Life Insurance Sales, Year to Date Fourth Quarter 2002 results. Based on annualized paid premium divided by number of new policies issued). TLC s average universal life face amount was CAD 363,900, in comparison with an amount of CAD 189,978, which was the average for the same 20 companies surveyed above (source: LIMRA International, Canadian Individual Life Insurance Sales, Year to Date Fourth Quarter 2002 results. Based on face amounts issued divided by number of new policies issued).

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

- independent managing general agencies (predominantly insurance-based with a wide ranging number of contracted producers and with multiple carrier capacity);

TLC owned and operated Profit Center Agencies (traditional brokerage operations with 200 to 600 non-housed independent insurance/segregated funds brokers);

bank-owned national broker-dealers (six large key accounts with tied investment advisors predominantly investment focused, but with rapidly expanding insurance);

World Financial Group/AEGON USA-owned or operated multi-level marketing group of wealth management advisor networks that have only recently started to aggressively grow in the Canadian marketplace and are now evolving into a more direct producer model for ACI products and services; and other national, regional and local/niche broker-dealers of various sizes and level of complexity.

ACI s total advisor network consists of approximately 36,000 open advisor accounts, of which approximately 18,000 have been active with the company in terms of sales in the last 12 to 18 months.

Asset Liability Management

TLC manages its investments in accordance with an investment policy approved by the Investment Committee of its Board of Directors. TLC monitors duration and cash flow matching positions, asset-liability management risk in products, interest rate risk, credit risk, equity risk, derivative risk and liquidity risk through various reports which are reviewed by an asset liability management committee which has representation from various departments within TLC. The committee also examines the risk/return ratio of various investments, develops and monitors various asset liability management policies and monitors regulatory capital requirements. TLC actively manages the credit risk in its portfolios on a daily basis. More than one quarter of TLC s total bond portfolio backs its Term to 100 life insurance product. The Term to 100 portfolio has very little corporate risk and is comprised primarily of provincial strip bonds and residuals.

TLC uses various derivative financial instruments to manage and reduce its exposure to fluctuations in risk, including interest rate, foreign exchange rate, equity and liquidity risk, as part of an asset-liability management program.

TLC mitigates counterparty credit risk arising from derivative activities by limiting exposure to any single counterparty. TLC s policy requires a minimum counterparty credit rating and sets out limits per transaction and credit exposure to a single counterparty.

Certain universal life insurance policies issued by TLC allow policyholders to select an interest-credited rate that is tied to the movement of certain stock exchange indices. TLC uses a swaps and a futures/cash investment strategy to earn a return sufficient to cover the interest credited based on the movement of these indices.

Reinsurance

TLC manages its reinsurance in accordance with a reinsurance policy approved by its Audit Committee of the Board of Directors. TLC uses reinsurance to manage mortality, morbidity and lapse risk. The Canadian reinsurance market has been very competitive over the last few years and TLC has entered into reinsurance on in force business when it makes economic sense to do so. The various reinsurance arrangements are primarily yearly renewal term, along with some funds withheld and modified coinsurance arrangements. These arrangements allow TLC to maintain the assets of and to utilize the expertise within ACM.

TLC limits the amount of loss on any one life, and on certain levels of risk in various areas of exposure, by reinsuring these risks with other insurers. The maximum life insurance exposure retained on any one individual is CAD 1.25 million.

Competition

Consolidation in the Canadian life insurance industry continues at a rapid rate. In most individual life product categories, the top 10 life insurance companies control in excess of 90% of the Canadian market. Transamerica Life Canada is well positioned in the universal life market, with the number two position and a 12.9% market share among the 20 companies that participated in a recent survey, for new first year universal life annualized premiums (source: LIMRA International, Canadian Individual Life Insurance Sales, Year to Date Fourth Quarter 2002 results. Based on annualized paid premium). In 2002, many competitors started diversifying their product offerings and entered the growing term insurance market, which increased the number of insurance companies competing in this market. Transamerica Life Canada in 2002 maintained its strong position in the term insurance market with a 13.6% market share and was the second largest writer of term insurance insurance among the 20 companies that participated in a recent survey. (source: LIMRA International, Canadian Individual Life Insurance Sales, Year to Date Fourth Quarter 2002 results. Based on annualized paid premium).

Transamerica Life Canada also continues to be a strong player in the Canadian segregated fund marketplace through its diversified multi-product approach. At December 31, 2002, Transamerica Life Canada was the fourth largest segregated fund insuring company with CAD 4.1billion in assets under management and market share of 10.6%.

Regulation

TLC is incorporated under the Canada Business Corporations 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 licenses 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.

AEGON The Netherlands

General History

AEGON Nederland N.V. (AEGON The Netherlands) was incorporated under the name AGO Holding N.V. on December 27, 1972. AEGON The Netherlands became the holding for all Dutch insurance and banking activities after the merger between Ennia and AGO in 1983 and was renamed AEGON Nederland N.V. in 1986. The history of AEGON s activities in the Netherlands goes back to 1759, when the oldest legal predecessor of the group, the Begrafenisbus De Broederlijke Liefde-beurs , started its activities in Haarlem.

The head office of AEGON The Netherlands is located in The Hague, with additional offices in Leeuwarden, Groningen, Nieuwegein, Utrecht, Amsterdam, Dusseldorf (Germany), Diegem (Belgium) and Milan (Italy).

Total employment of AEGON The Netherlands as at December 31, 2002, was 3,030, including agents.

The primary operating subsidiaries in the Netherlands are:

AEGON Levensverzekering N.V., The Hague;

AEGON Schadeverzekering N.V., The Hague;

AEGON Nabestaanden Zorg N.V., Groningen;

AEGON Financiële Diensten B.V., The Hague;

AEGON Spaarkas N.V., The Hague;

AEGON Bank N.V., Utrecht; and

Spaarbeleg Kas N.V., Utrecht.

AEGON The Netherlands is involved in both life and non-life insurance businesses and provides financial services and asset management. AEGON The Netherlands operating activities are organized into the following business units:

Pensions:

AEGON Pensioen en Advies; and

AEGON Bedrijfspensioenen.

Life:

AEGON Particulieren;

- Spaarbeleg;
- AEGON Van Nierop;
- AXENT/AEGON;
- AEGON Nabestaandenzorg (NBZ); and
- Moneymaxx.

Non-Life:

- AEGON Schade Bedrijven; and
- AEGON Particulieren.

Asset Management:

- AEGON Asset Management.

Banking

- Spaarbeleg;
- AEGON Particulieren (AEGON Financiële Diensten AFD).

AEGON The Netherlands pension business accounts for approximately 51% of its revenues, life business for approximately 32%, non-life business for approximately 11% and banking for approximately 6%.

Recent Developments and Capital Expenditures and Divestments

On December 23, 2002 AEGON The Netherlands acquired TPG KPN Pensioen B.V. (TKP Pensioen), an administrator of pension funds, which include approximately 150,000 participants at the end of 2002.

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

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

On February 29, 2000, AMVEST Vastgoed B.V., a 50%-50% joint venture of AEGON The Netherlands and PGGM (one of the largest pension funds in The Netherlands), reached an agreement with Rodamco Continental Europe N.V. regarding the sale of office buildings and shopping centers.

To help minimize distribution bottlenecks and reduce costs, the organization of Van Nierop Assuradeuren was merged with the AEGON Vermogensperspectief business unit and renamed AEGON Van Nierop, serving high worth individuals. AEGON Van Nierop s distribution was streamlined and the unit is positioned to benefit from future opportunities for further growth.

Key Priorities for 2003

Without losing sight of the strategic commitment to local responsibility or to proven business principles, such as reliability, teamwork and responsiveness, AEGON The Netherlands will continue during 2003 to modernize and enhance links with distribution channels and consolidate brand perception and back offices, while focusing partnering both inside and outside the organization as the key to strengthening and speeding business flow.

Products and Distribution

AEGON The Netherlands offers five product lines:

- pensions;
- life insurance;
- Moneymaxx;

- non-life insurance; and
- banking.

Pensions

Pension products are sold by the AEGON Pensioen en Advies and AEGON Bedrijfspensioenen business units.

AEGON Pensioen en Advies services large companies as well as company pension funds (ondernemingspensioenfondsen) and industry pension funds (bedrijfstakpensioenfondsen). Its main products are:

- products for the account of policyholders with guarantees (GB garantiecontract);
- products for the account of policyholders without guarantees (GB kapitaalcontract);
- MKB growth pensions (MKB groei pensioen);
- MKB guarantee pensions (MKB garantie pensioen);

the AEGON pension package (defined contribution); and

the AEGON Garantie Pensioen.

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

AEGON Garantie Pensioen and MKB garantie pensioen 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. Premiums tariffs are fixed over the contract period and the longevity risk lies with AEGON Levensverzekering N.V. Minimum interest guarantees are given for nominal benefits, based on the 3% or 4% actuarial interest, after retirement of the employee.

AEGON The Netherlands expects that the trend in the Dutch pension market will shift from defined benefit plans to defined contribution plans. Consequently, AEGON Levensverzekering N.V. introduced two new products in 2002 to accommodate this change in the market: the AEGON PensioenBeleggingsplan (Pension Investment Plan) and the Pensioenversneller (Pension Accelerator).

Pensioen en Advies does not sell products through intermediaries but rather directly to clients. AEGON Bedrijfspensioenen sells pensions to small and medium sized companies through intermediaries.

In 2002, AEGON Levensverzekering N.V.entered into an agreement with the TotalFina oil company to create a loyalty program for truck drivers who can earn supplementary pension plan contributions by refuelling at TotalFina stations.

Life Insurance

AEGON Particulieren principally sells standard financial products in bulk. Its most important products are discussed below.

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

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

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

Spaarbeleg Kas N.V. and AEGON Spaarkas N.V. sell Spaarbeurs products, which are life products with both single and recurring premiums and profit sharing based on a tontine system. The main characteristic of a tontine product is that the short life risk lies with the issuer and the longevity risk lies with the insured. Spaarbeleg Kas N.V. is the market leader in this business segment in The Netherlands (source Pensioen en Verzekeringskamer]. In addition to the tontine products, Spaarbeleg Kas N.V. sells a number of tax driven products like Toekomstplan and Koersplan and has provided intermediaries in 2002 with better access to products and services in order to meet consumers requirements with respect to pension issues. Spaarbeleg Kas N.V. is based in Nieuwegein and has a branch office in Diegem Belgium. Products are sold through a number of intermediaries and by direct marketing.

AEGON Van Nierop was formed in 2002 following the merger between the business unit VermogensPerpectief and the organisation Van Nierop Assuradeuren. AEGON Van Nierop caters to the high income and high net-worth segment of the market. Customers are served directly or through a network of high-quality intermediaries. AEGON Van Nierop s products relate to capital accumulation, capital protection, capital consumption and estate planning and are customized to this specific segment.

AXENT/AEGON transferred its group life business to the Pensions business unit, the funeral business to NBZ and the administration of its life and savings portfolio to AEGON Particulieren. AXENT/AEGON now acts as a selling unit, selling products which have been developed by other units in AEGON The Netherlands.

Following the merger of the funeral insurance portfolios of N.V.G., AEGON Particulieren and the AXENT/AEGON subsidiary LPU Verzekeringen N.V. in 2002 into NBZ, NBZ now manages more than two million policies in this market, placing it among the top three (source Pensioen- en Verzekeringskamer) providers of funeral insurance in the Netherlands. The four aspects of this product portfolio are funeral, income protection, inheritance and related services. Further growth potential in this market is achievable by introducing new distribution methods and new products that enable clients to ensure their family s financial situation in the event of their deaths. NBZ seeks to distinguish itself from its competitors through a broad approach to financial care for surviving relatives and accessible estate planning.

Moneymaxx

Moneymaxx products are simple saving and insurance unit-linked types of products designed for the mass market. In 2002, AEGON

The Netherlands decided to incorporate the Moneymaxx activities in existing local AEGON units, unless the activities were large enough to operate independently. AEGON Lebensversicherung-AG in Germany and AEGON Belgium continue to operate independently. Moneymaxx products were initially sold via direct marketing only. However, distribution via intermediaries is becoming increasingly important. In Italy, AEGON The Netherlands decided to cease offering Moneymaxx products as direct sales results failed to meet expectations.

Non-life Products

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

Banking

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

In addition, AEGON Bank N.V. sells a number of share lease products. AEGON Financiële Diensten B.V. sells share lease products through agents under the AEGON name.

In 2002 it became clear that under existing market conditions short-term equity saving plans or share lease plans were currently not attractive to customers.

During 2002, AEGON Asset Management (AAM) won EUR 1.2 billion of asset management mandates. AAM s approach is to further develop the institutional market by winning asset management customers in cooperation with Pensioen en Advies, while also assisting AEGON The Netherlands retail units in developing banking expertise. In 2002, AAM launched eight mutual funds and plans to expand product development further in order to offer a complete range of funds. AAM is also the asset manager for AEGON The Netherlands insurance subsidiaries.

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

Asset Liability Management

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

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

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

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

At the end of 2001, AEGON The Netherlands existing asset liability management approach was upgraded. Although the basic principles are the same, in the new concept financial risks are managed and monitored following a more top-down approach. The revised asset liability management concept comprises a coherent set of rules regarding capital allocation, dividend policy and strategic asset allocation for business units, statutory entities and AEGON Netherlands N.V.

Reinsurance

Life

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

Non-life

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

Competition

Competition in the Dutch insurance market is strong due to a large number of active companies. The top five companies in terms of gross life premium income comprised approximately 65% of the total market in 2001 (source: annual accounts). In terms of gross life premium income over 2001, AEGON The Netherlands was in the top three. In terms of non-life premium income, AEGON The Netherlands was in to the top ten in 2001 (source VVP-magazine 2002).

Regulation

The regulation and supervision of financial institutions in The Netherlands changed significantly in 2002. As of September 2002, three institutions are responsible for the supervision of financial institutions in The Netherlands:

Autoriteit Financiële Markten (AFM);

De Nederlandsche Bank (DNB); and

Pensioen & Verzekeringskamer (PVK).

The allocation of responsibilities between these three entities is formalised in a convenant. The AFM is responsible for supervising corporate governance and the provision of information to consumers (supervision on market conduct) and the DNB and PVK supervise solvency. More detailed guidance on market conduct supervision is set out in Nadere Regeling gedragstoezicht effectenverkeer 2002 and Nadere Regeling prudentieel toezicht effectenverkeer 2002 .

The PVK supervises insurance companies under the mandate of the Wet Toezicht Verzekeringsbedrijf 1993 (WTV). The PVK and DNB have expressed an intention to merge into a single authority for supervising the solvency of financial institutions. The merger is expected to be finalized in early 2005.

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

Insurance companies in The Netherlands fall under the supervision of the PVK pursuant to the Wet Toezicht Verzekeringsbedrijf 1993 mandate. Under this mandates all life and non-life insurance companies that fall under the PVK s supervision must file audited regulatory reports before July 1 of the year following the end of the reporting year (before May 1, 2004 for bookyear 2003 and after). These reports are primarily designed to enable the PVK to monitor the solvency of the entity involved. They include a consolidated balance sheet, a consolidated income statement, extensive actuarial information and detailed information on investments.

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

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

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

- AEGON Levensverzekering N.V.;
- AEGON Schadeverzekering N.V.;
- AEGON Spaarkas N.V.;
- Spaarbeleg Kas N.V.;
- AXENT/AEGON Leven N.V.;
- AEGON Nabestaanden Zorg N.V.;
- Axent/AEGON Uitvaartverzekeringen N.V.;
- Axent/AEGON Sparen N.V.; and
- Axent/AEGON Schade N.V.

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

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

AEGON Bank N.V. falls under the supervision of the DNB, pursuant to the Wet Toezicht Kredietwezen 1992 mandate. The bank must file monthly regulatory reports and an annual report. The annual report and one of the monthly reports must be audited.

AEGON Financiële Diensten N.V. falls under the supervision of both the AFM and the DNB.

United Kingdom

General History

The principal holding company within the AEGON UK plc 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, and has its principal place of business at AEGON House, Edinburgh Park, Edinburgh EH12 9XX (telephone 00 44 131 339 9191).

The primary operating subsidiaries of AEGON UK are:

- Scottish Equitable plc, Scotland;
- Scottish Equitable (Managed Funds) Limited, Scotland;
- Guardian Assurance plc, England;
- Guardian Linked Life Assurance Limited, England;
- Guardian Pensions Management Limited, England;
- AEGON Asset Management UK plc, England;
- AEGON Fund Management UK Ltd, England;
- Guardian Unit Managers Ltd, England;
- HS Administrative Services Limited, England;
- Scottish Equitable International SA, Luxembourg; and
- Scottish Equitable International (Dublin), Ireland.

Recent Developments and Capital Expenditures and Divestments

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

On November 21, 2002 AEGON UK purchased 60% of Positive Solutions, a National Financial Advisory company specializing in the provision of management services to Registered Individuals.

On August 20, 2002, AEGON UK plc purchased 100% of Momentum, one of the largest independent financial advising firms in the United Kingdom.

On August 13, 2002, AEGON UK plc purchased 100% of Advisory & Brokerage Services Ltd., an independent advisory company specializing in high net-worth private clients and the corporate sector.

On June 25, 2002, AEGON UK plc purchased a 50% share in Wentworth Rose, an Independent Financial Advisory firm established in 1989.

On September 5, 2000, AEGON UK plc acquired the business of HS Administrative Services Ltd., a privately owned company that was a leading provider of third party administration services to corporate pension schemes. This acquisition added to the financial services offered by AEGON UK and allowed HS Administrative Services to maintain and extend its core business.

Key Priorities for 2003

AEGON UK remains confident that the market for savings, pensions and insurance has significant growth potential and is strongly positioned to benefit from expected consolidation as weaker life companies withdraw from active market participation. AEGON UK will focus on delivery of cost savings in 2003, while continuing to invest in delivering excellence to its target markets of corporate pensions, employee benefit packages, pre- and post-retirement investment and insurance business.

Finally, management and process improvements in AEGON UK s investment management are expected to deliver strong future performance in the equity and managed fund arena and to sustain growth in the institutional marketplace.

Products and Distribution

AEGON UK is a major financial services organization specializing in the pensions, investments and protection markets. Over half of AEGON UK s sales relate to corporate business. AEGON UK has prominent positions in group pensions, individual pensions, offshore bonds, group risk and individual protection products through the independent financial adviser channel. In addition to manufacturing these life and pension products, AEGON UK also has a growing asset management business and administrative services business and has recently acquired distribution businesses.

Most of AEGON UK s products provide it with policy charges, which increasingly relate to a management charge for funds under management. Older contracts continue to have other policy-based or transaction-based charges such as bid/offer spread. Protection products provide a profit, which is the difference between the price less mortality experience and costs.

Pensions

The pensions market experienced significant growth in gross sales during 2000 and 2001 following the launch of stakeholder pensions, which are a government-led product with a 1% annual management charge limit aimed at widening the number of individuals with a pension. As a result of the launch of the stakeholder pension product, many other pension products were pressured to reduce charges, which led to a high level of sales activity in terms of both new schemes and transfers of existing schemes. It has also been necessary to protect existing business by reducing the charge structure in force. There is expected to be potential for some relaxation of price cap levels if government targets for higher private provision are to be met.

The market has stabilized at this higher level during 2002 as the trend towards defined contribution schemes, away from defined benefit schemes has intensified.

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

Scottish Equitable plc has maintained a top-five position in the independent financial advisor channel for group and individual pensions throughout 2001 and 2002 based on ABI market statistics.

Group Pensions. The sale of group pensions is the primary focus of Scottish Equitable plc (SE). These are pension funds for the employees of corporate customers and cover a range of benefit options, but which are predominately defined contribution. At retirement, the accumulated pension fund is used to purchase an annuity. SE also sells and administers defined benefit pensions, although the market for these types of products has decreased in recent years.

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

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

Individual Pensions. SE also offers a comprehensive range of pension products for individuals. These include stakeholder pensions, pensions for executives and transfers from other schemes and policies allowing an individual to supplement corporate pensions, called free standing additional voluntary contributions. In addition, SE has been among the top three market leaders (based on ABI Industry data) in income drawdown and phased retirement products aimed at individuals with significant pension funds who do not want to invest in an annuity immediately upon retirement.

UK and Offshore Bonds

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

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

This kind of product has received a large amount of regulatory attention over the past two years. The primary focus has been on increasing the transparency of the product in order to clarify how the bonuses applied relate to the underlying fund returns. Also, a recent report sponsored by the UK government questioned the tax breaks applied to the bond wrapper.

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

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

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

SEIH has launched two new products: the Money Market Portfolio and the delegated custodian private client product (the Dublin Private Client Portfolio). The Money Market Portfolio allows access to low-risk money market fund investments within the tax-efficient structure of an offshore bond. This is distributed through independent financial advisors to both corporate investors and high net-worth individuals. The Dublin Private Client Portfolio caters to investment managers and private banks and allows the aggregation of a custom-made portfolio of assets.

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

Individual Protection

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

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

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

The product range was further enhanced in 2002 with the introduction of income protection products that provide insurance for unemployment due to illness or accident.

Group Risk

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

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

Mutual Funds

AEGON Asset Management UK (AAM) is a major provider of fund management services both within the AEGON UK group and to institutional customers and individuals. At December 31, 2002, AAM managed approximately GBP 30 billion of funds, providing both mutual and segregated funds for clients.

AAM is one of the United Kingdom s largest participants in the corporate bond markets, with more than GBP 10 billion invested, which has proved to be a major strength in the institutional market. A dedicated sales force has been established to exploit this capability and AAM continued to win new mandates during 2002.

Distribution Channels

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

There are approximately 26,000 active registered independent financial advisors in the United Kingdom, many of whom are grouped into networks of advisers, who act as large national distributors. The thirty largest of the 4,300 IFA firms employ 80% of the registered independent financial advisors. AEGON UK has strong relationships with independent financial advisors across the market, but is particularly involved with the networks and with large local firms.

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

The opportunity to invest in distribution has only recently been created by proposed regulatory change to the UK market. In 2002, AEGON UK established a new business unit, AEGON UK Distribution Holdings, to invest in and develop AEGON UK holding s intermediary distribution companies. To date, AEGON UK has taken majority interests in four distribution companies and minority stakes in three others.

Asset Liability Management

At December 31, 2002, assets under management by AEGON UK amounted to GBP 30 billion. Of this GBP 30 billion, GBP 12.5 billion is covered by unit-linked policies where both the decision regarding which sector of the market to invest in and the risk of over/under performance rests with the policyholder. Of this GBP 12.5 billion, GBP 12 billion is managed by AEGON UK s internal investment company and GBP 0.5 billion by a range of external investment organizations. Of the GBP 17.5 billion balance, the majority (GBP 15.7 billion) represents investment in with-profits policies. Investment committees are in place for each of the statutory entities and these committees, which report to the appropriate Boards of Directors, meet quarterly to set benchmarks/risk profiles for the investment managers and to monitor performance against these benchmarks. Additionally the investment committee of the Board of Directors of AEGON UK reviews the policies and processes of its internal manager on a quarterly basis.

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

Guaranteed annuity options (GAOs) are a major source of potential risk in the UK market. Scottish Equitable plc is the only company in the AEGON UK group with significant exposure to GAOs. This exposure has been capped by the purchase of a range of swaptions designed to match both the interest and mortality risk inherent within the GAOs.

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

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

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

Reinsurance

AEGON UK reinsures mortality and morbidity risk, resulting in limited exposure to these risks. AEGON UK s policy is to reinsure 90% of the risk for new mortality and morbidity business and to reinsure 100% of longevity risk for annuities. The quality of the reinsurer is monitored by setting a minimum credit rating of AA by Standard & Poor s. Any decision to use a reinsurer with a lower credit rating requires the agreement of AEGON s reinsurance committee. All reinsurance to date has been with companies external to the AEGON Group.

A detailed summary of all risk agreements is provided annually to the AEGON Group Risk Committee.

AEGON UK also uses reinsurance as a means of providing investment management, via a number of external fund management organizations, in respect of part of its unit-linked business.

Competition

AEGON UK faces strong competition in all its markets from two key sources life and pension companies and investment management houses.

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

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

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

Regulation

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

The Financial Services Authority acts as both a prudential and conduct-of-business supervisor. As such, it sets minimum standards for capital adequacy and solvency, and regulates the sales and marketing activities of the regulated companies.

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

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

AEGON Ireland Holdings BV is a holding company having its head-office at AEGONplein 50, The Hague, the Netherlands. This company comprises three corporations, an Irish life insurance company (Scottish Equitable International (Dublin) plc), a services company (Scottish Equitable International Services) and a reinsurance company (Transamerica International Reinsurance Ireland). The Irish Department of Enterprise, Trade and Employment regulates Scottish Equitable International (Dublin) plc, which is subject to all Irish corporate and insurance regulations. Scottish Equitable International Services is governed by Irish corporate legislation and submits annual accounts to the company registrar.

Other Countries

Hungary

General History

The ÁB-AEGON General Insurance Company (ÁB-AEGON) has been a member of the AEGON Group since 1992, celebrating its tenth anniversary in 2002. The legal predecessor of the company was the state-owned ÁB, which was incorporated in the 1940 s under the former socialist regime. In the last ten years, ÁB-AEGON has been transformed into one of the most profitable insurance companies in Hungary (source: income statement of the Hungarian insurance sector, 2001, *www.mabisz.hu*).

ÁB-AEGON is a limited liability company. It operates in Hungary and has its head office in Budapest at 1091, Budapest Ülloi út 1. phone: +36-1-4-765-765. ÁB-AEGON s main operations are life insurance, general insurance and asset management. It is a wholly-owned subsidiary of AEGON.

ÁB-AEGON has four subsidiaries, all located in Hungary:

AEGON Securities;

AEGON Real Estates;

- AEGON Pension Fund Management Co.; and
- AEGON Hungary Fund Management Co.

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

The main strategic goals are to:

- increase profit and premium income;
- maintain the number-one position in new sales of life insurance products;
- maintain client satisfaction and loyalty;

win the institutional investor of the year award for excellent investment performance again;

retain market share in household insurance above 50%; and

obtain a significant market share in the fast growing mortgage market.

Products and Distribution

ÁB-AEGON is a composite insurance company offering both life insurance and non-life insurance products. The core business products are life, pension, mortgage and household insurance. The life insurance product portfolio consists of traditional general account products and unit-linked products, although in recent years unit-linked sales have been much more significant than general account product sales. For general account products, profits on the investments are shared with the client. For unit-linked products, the customers money is managed in a separate account invested in investment fund units and only a management fee is deducted from the return. In the case of non-life insurance products, the company has a conservative underwriting policy, limiting ÁB AEGON S risk. ÁB AEGON insures over half of the household market. The profitability of household insurance is very high and presents ÁB-AEGON with positive opportunities for cross-selling life insurance products. Property and car insurance are also represented in the portfolio but are not core products. Due to portfolio protection, motor insurance will gain more attention this year.

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

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

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

Group Life Products. These products are mostly identical to unit-linked products, but some of them have guaranteed interest. They are sold to companies covering large groups of employees, not individuals.

ÁB-AEGON also provides asset management services through its subsidiary, AEGON Securities. It offers five mutual funds to the public: domestic bond, domestic equity, international bond, international equity and money market.

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

ÁB-AEGON s two main distribution channels (the composite and life networks) work with agents but the company also uses alternative channels and partners to increase the number of sales in this sector. That enabled us to keep a strong position in life insurance new sales in 2001 and 2002.

The composite network is ÁB-AEGON s main distribution channel. It sells all types of insurance products through agents, who are organized under the direction of territorial directorates.

Independent agencies are special composite brokers. They work on behalf of ÁB-AEGON and can only sell AEGON products. The company has contracts with a few agencies. The independent agencies mainly sell life and mortgage insurance products.

The life network is a special alternative to the composite network. Although it also distributes through products agents, the agents only sell life and pension insurance products. The life network is slightly smaller than the composite network. The life network agents are qualified investment advisors who cater to the upper-income segments of the population.

Brokers are independent intermediaries that work on behalf of the customer. ÁB-AEGON has relationships with several brokers, but these brokers can also sell the products of other insurance companies. The brokers main product line is non-life, but ÁB-AEGON would like to expand their sales capacity to include life and pension products as well.

Moneymaxx sells a very simple savings product mainly through direct sales. Their share in the new sales of ÁB-AEGON is presently less significant than other methods of distribution (and products).

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

Asset Liability Management

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

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

Fund Management Company, which is the asset manager of the AEGON pension funds.

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

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

ÁB-AEGON follows a very conservative investment policy. The main part of the portfolio consists of government issues. Shares, mortgage bonds and real estate play a very marginal role. ÁB-AEGON s asset liability management model is based on duration management. The investment department is responsible for the duration management and determines the portfolio of assets required to match the characteristics of product liabilities. ÁB-AEGON S assets under management amounted to EUR 1.3 billion at December 31, 2002**.**

Reinsurance

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

Competition

The Hungarian insurance market is very concentrated, with five to six major companies comprising 80 to 85% of the market, based on premium income. However, the income share concentration in the market is slowly decreasing: there are now twelve to fifteen insurance companies active in the market. In the first quarter of 2002, ÁB-AEGON had the second largest life insurance premium income and portfolio premium and in 2001 the largest new sales income. ÁB-AEGON is the market leader in household insurance premiums and has the largest portfolio (source: annual and quarterly reports of the Hungarian insurance sector, 2000, *www.mabisz.hu*). ÁB-AEGON s market share in motor and property insurance is less significant.

ÁB-AEGON is one of the largest institutional investors in Hungary, with more than EUR 1.3 billion in assets under management. In 2001, ÁB-AEGON won the Institutional Investor of the Year award for excellent investment performance and in 2002 our portfolio managers shared the Most Sophisticated Portfolios Manager award.

ÁB-AEGON had the highest profit in the Hungarian market in 2001. In 2001, ÁB-AEGON s net profit after tax exceeded 46% of the total profit of the sector (source: income statement of the Hungarian insurance sector, 2001, *www.mabisz.hu*).

Regulation

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

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

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

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

Spain

General History

In Spain, AEGON operates through AEGON Union Aseguradora SA (AEGON Spain), a non-life insurance company headquartered in Madrid, which is also the parent company of two life insurance subsidiaries: AEGON Seguros Vida, Ahorro e Inversion SA and AEGON Moneymaxx SA. As of January 1, 2003, AEGON Union Aseguradora SA became the holding company of four operating companies: AEGON Seguros Generales, AEGON Seguros Salud, AEGON Seguros de Vida and AEGON Moneymaxx SA.

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

Twenty-four percent of AEGON Spain s 2002 premium income was derived from life insurance, 62% was derived from property and casualty insurance and 14% was derived from health insurance. As at December 31, 2002, AEGON Spain had 701 employees.

Products and Distribution

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

With respect to life insurance, AEGON Spain s principal products are traditional life and unit-linked insurance. Traditional life insurance is comprised of permanent and term life insurance. Permanent life insurance provides life-long financial protection. The policy has a cash value feature with a minimum tax-deferred rate guarantee that accumulates over the life of the policy and can be used to fund financial goals, particularly in retirement. Term insurance covers the insured for a specific period of time. The policy pays death benefits only if the insured dies during the term. Policies can usually be renewed upon expiration and premiums normally increase upon renewal. Unit-linked insurance is a form of life insurance 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 or combinations of both.

For distribution purposes, AEGON Spain makes a distinction between individual life and group life. Individual life products are sold in urban centers by specialized agents and brokers and in rural areas by specialized agents and on a direct marketing basis using the Moneymaxx concept. Group life products are distributed through banks and financial institutions as well as through brokers and specialized agents. A new law has been approved by Parliament that increases the fiscal advantages for retirement products and will offer opportunities for insurance companies.

Having strengthened its central data processing systems to improve measurement and control, AEGON Spain s general insurance division is delegating more responsibilities to agents, branch offices and regional headquarters. The objective of this decentralization is to lower costs and to continue to provide adequate service in a difficult and volatile market climate.

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

In 2002, the health unit reorganized its commercial management to increase responsiveness. A centralized health division back office for underwriting, separate from the general insurance activities, has been established.

Under the National Social Security System, the Spanish workforce is automatically insured for health expenses and the purchase of private insurance policies therefore means a duplication of expenses.

AEGON Spain s main health product is Salud Premier Gold, which is an annually renewable product for medical services. It accounted for 83% of AEGON Spain s health premium income in 2002. Health policies are distributed through agents, directly to customers and through specialized health agents.

Asset Liability Management

AEGON Spain s approach to asset liability management is based on the projection of both asset and liability cash flows, the calculation of their present values using a market yield curve and the calculation of the main parameters affecting these cash flows, such as duration and convexity, among others. The target is to lock in the spread by making the duration of assets and liabilities equal to each other.

Part of AEGON Spain s investment portfolio is managed by AEGON UK, but closely supervised by AEGON Spain.

Reinsurance

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

Competition

Competition in Spain is significant. Among AEGON Spain s major competitors are the bank-owned insurance companies for life and pension products, foreign insurance companies for all product lines and foreign and local companies for health insurance products.

Regulation

Dirección General de Seguros (DGS) is the regulatory authority for the Spanish insurance business. Insurance companies have to report to DGS quarterly. The Spanish legal requirements incorporate the requirements of the European Community Directives. In terms of solvency margin, local requirements 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 exceeds both solvency requirements.

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

Taiwan

General History

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

Based on total premium income for 2002, AEGON Taiwan ranked sixth out of the 13 foreign life insurance companies operating in Taiwan (Source: The Life Insurance Association of the Republic of China, released January 15, 2003). AEGON Taiwan s total employment as of December 31, 2002 was 801. Of this total, 569 employees are agent-employees.

Products and Distribution

The product portfolio consists primarily of increasing/level whole life, female whole life, coupon whole life, whole life cancer, endowment life, term life, dread disease whole life rider, one-year term health/accident rider and waiver of premium rider products. A new variable universal life product was introduced in April 2002.

Life, traditional whole life and term life products continue to be AEGON Taiwan s main products. With some variations in benefit features and premium payment patterns, such as graded whole life and inflation adjustment, increasing death benefit whole life is designed to meet various consumer needs. All survival benefits and cash surrender value, including embedded interest earned, are tax-exempt. Endowment life products and coupon whole life products with periodical survival benefit payments are also selling well in the Taiwanese market.

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

Dread disease whole life riders, yearly renewable health and accident benefit riders and waiver of premium riders provide popular supplementary coverage for most of AEGON Taiwan s policyholders.

AEGON Taiwan distributes its products primarily through the agency channel, but also uses insurance brokerage firms and banks (bancassurance). Agencies provide the main distribution channel. This distribution channel consists of a network of professional career agents located in 32 offices nation-wide. Due to training and strong back office support, agent productivity for 2002 was on average 3.5 new base policies per agent per month, which is more than double the industry average of 1.26 policies per agent per month (Source: The Life Insurance Association of the Republic of China).

Asset Liability Management

Asset liability management is an integral part of AEGON Taiwan s newly instituted risk management process. AEGON Taiwan s asset liability management policy aims to match assets and liabilities and reduce total risk while maximizing investment yield. To achieve these objectives, broad risk limits are established for the investment portfolio given the general account liabilities as defined by a baseline investment policy statement. The calculation also takes into account the duration of assets and liabilities and the capital at risk. The long-term duration mismatch goal is plus or minus 0.75 years. At year-end 2002, the mismatch is above that level and amounts to 2.17 years assets shorter than liabilities.

Competition

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

With the introduction of new regulations to facilitate the formation of financial holding companies, which allow banks to broaden their activities into insurance, the bancassurance channel is forecasted to develop very rapidly. Owing to the increase in competition with bancassurance, direct marketing and brokers, the number of career agents was reduced by 40,000 (12%) in 2002.

Regulation

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

Transamerica Finance Corporation

Transamerica Finance Corporation conducts business in commercial lending, intermodal leasing and real estate information services operations.

The commercial lending operation makes commercial loans through four businesses: distribution finance, business capital, equipment financial services and specialty finance. It has offices in the United States, Mexico, Canada, Europe and India. The intermodal leasing operation provides service, rentals and term operating leases through a worldwide network of offices, third party depots and other facilities. The intermodal leasing operation offers a wide variety of equipment used in international and domestic commerce around the world. Its fleet consists of over 674,000 marine containers (consisting of units that are owned along with managed for and leased from others) and over 19,000 European trailers. Real estate information services provides property tax payment and reporting, flood certification and other real estate information services to its customers.

Due to their dissimilarity in operations in relation to the operations of AEGON, these group companies have not been consolidated.

Description of Property

In the United States, we own predominantly all of the buildings which we use in the normal course of our business, primarily as offices. We own 15 offices located throughout the United States with a total square footage of 3.2 million. We also lease office space for various offices located throughout the United State under long-term leases for a total square footage of 1.1 million. Our principal offices are located in Los Angeles, California, Cedar Rapids, Iowa, Frazer, Pennsylvania, St Petersburg, Florida, Plano, Texas and Baltimore, Maryland.

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. The Company believes that its properties are adequate to meet is current needs.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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 .

Outlook 2003

AEGON remains strongly positioned and capitalized in the markets in which it operates. Business operations are sound and we look forward to profitable new business growth and lower expense levels. Nonetheless, weak and volatile financial markets and geo-political uncertainty continue to create a difficult operating environment for out business. AEGON s Executive Board remains cautious in its outlook for 2003 and has not provided an earnings forecast for 2003.

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 judgements 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 judgements frequently and an understanding of these judgements 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 judgement or involve complex estimates.

Technical Provisions Life Insurance

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.

Reserve for Guaranteed Minimum Benefits (GMBs)

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

- guaranteed minimum benefits on variable products, primarily variable annuities, in the United States;
- guaranteed minimum accumulation benefits on segregated funds in Canada; and
- guaranteed return on certain unit-linked products in The Netherlands.

In the United States a common feature of variable annuities is a guaranteed minimum death benefit, under which, the beneficiaries receive the greater of the account balance or the guaranteed amount when the insured dies. The guaranteed amount is calculated using the total deposits made by the contract holder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value, respectively. Our technical provision for life insurance includes a provision in connection with the guarantees issued. A cap and a floor for this provision is calculated using stochastic prospective methods (probability weighted calculation using multiple future scenarios) and current assumptions. See the following section on the accounting policy for deferred policy acquisition costs for a discussion of the various assumptions involved in the calculation. Within the cap and floor corridor, we use the accrual method based on pricing assumptions with valuation interest less actual claims incurred. Outside the cap and floor corridor, a surplus or shortfall of the provision will cause an extra charge or credit to the income statement.

In Canada, variable products sold are known as segregated funds . Segregated funds are similar to mutual funds except they include a capital protection guarantee for mortality and maturity. The initial guarantee period is 10 years. The 10-year period may be reset at the 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 provisions for the minimum guarantees on segregated funds are established consistent with the method described above for minimum guarantees on variable annuity contracts sold in the United States.

In the Netherlands Fundplan policies have a guaranteed return of 3% or 4% at maturity or upon the death of the insured if the premium is paid for a consecutive period of 10 years and is invested in the Mixed Fund and/or Fixed Income Fund. For this guaranteed return, we establish a provision based on stochastic modelling methods. If the provision develops outside the corridor, a charge or credit to the income statement is recorded. Minimum interest guarantees on group pension contracts in The Netherlands are given for nominal benefits, based on the 3% or 4% actuarial interest, after retirement of the employees. Due to the nature of the products, these guarantees have a long-term horizon of approximately 30 to 60 years. The provision is developed applying the accrual method based on pricing assumptions less actual deductions.

The US variable annuity account balance at December 31, 2002 was EUR 27.3 billion (EUR 34.1 billion at December 31, 2001), and the GMDB reserve balance totalled EUR 257 million at December 31, 2002, with an addition of EUR 214 million during 2002.

For the Canadian Segregated funds the account balance at December 31, 2002 was EUR 2.5 billion (EUR 0.7 billion at December 31, 2001) and the GMB reserve balance totalled EUR 76 million at December 31, 2002, with an addition of EUR 59 million during 2002.

The Netherlands unit linked polices, including group contracts had an account balance of EUR 7.5 billion at December 31, 2002 (EUR 8 billion at December 31, 2001) and the GMB reserve totalled EUR 236 million at December 31, 2002, with an addition of EUR 209 million during 2002.

The total Net Amount at Risk (excess of guaranteed amount over account values) at December 31, 2002 amounted to EUR 8.3 billion (2001: EUR 5.4 billion). It should be noted that the net amount at risk (NAR) is a gross exposure and does not take into account the impact of mortality and lapse decrements nor does it recognize future premium income and investment returns.

Amortization of Deferred Policy Acquisition Cost, including Value of Business Acquired

AEGON defers and amortizes policy acquisition costs that vary with and are directly related to the sale of life insurance contracts. Policy acquisition costs are deferred to the extent that management believes they are recoverable from future estimated gross profits (including future expense charges in the premiums). Deferred policy acquisition costs (DPAC) are deducted from the technical provision for life insurance.

DPAC are amortized over the life of the underlying contracts, which for fixed premium products (traditional life and fixed universal life) are periods not to exceed the premium-paying periods and for flexible premium insurance contracts and investment type contracts are determined in proportion to emerging gross profits. The periods are generally between seven and forty years.

For fixed premium products amortization of policy acquisition costs is based on management s best estimates and assumptions including mortality, lapses and expected maturity. DPAC for these products are amortized as a percentage of premiums over the life of the contracts. The assumptions are established at issue with amortization accelerated only when loss recognition testing indicates the remaining DPAC are not recoverable from future gross profits. The amortization pattern can be disturbed by mortality and excess lapses. With respect to mortality the unamortized DPAC write-off is covered by the mortality risk loadings included in the regular expense loadings. With respect to lapses the unamortized DPAC can generally be recovered in whole or in part from policy surrender penalties; if not then an extra write-off will occur. Every year DPAC are tested by country unit and product line to assess the recoverability from future gross profits. The portion of existing DPAC that management believes is not recoverable will be recognized as an expense in the income statement.

For flexible premium insurance and investment type contracts, including fixed and variable annuities, variable universal life and unit linked contracts, amortization of policy acquisition costs is based on prudent assumptions underlying the calculation of expected gross profits, based on management s best estimates supported by historical experience and management judgement as to future experience. 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 generally in proportion to emerging gross profits over the life of the contracts. The amortization pattern can be disturbed by mortality, lapses and changes in the equity returns that differ from assumptions. With respect to mortality the unamortized DPAC write-off is covered by the mortality risk loadings included in the regular expense loadings. With respect to lapses, the unamortized DPAC can in some cases be recovered in whole or in part from surrender penalties; if not then an extra write-off will occur.

Movements in equity markets can have a significant impact on the value of the flexible premium and investment-type contract accounts and the fees earned on these accounts. As a result estimated gross profits may 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 is amortized at a constant rate based on the present value of the expected gross profit amounts estimated to be realized over the life of the policies. At least annually, management reviews all significant assumptions included in the determination of estimated gross profits, including management s estimate of future near and long-term asset growth rates. If, based on management s current best estimate of future events, it is determined that the assumptions are no longer appropriate, expected gross profits are revised based on the revised assumptions. Using actual historical gross profits and the revised expected gross profits, DPAC amortization is recalculated on a retrospective basis with any difference resulting in an to either decrease or increase the DPAC balance. This process is referred to as DPAC unlocking. The difference between the original DPAC amortization schedule and the revised schedule is recognized in the income statement as an expense or a benefit. Because equity market movements have a significant impact on the value of variable annuity accounts and the fees earned on these accounts, expected gross profits can significantly increase or decrease with movements in the equity markets. AEGON USA currently assumes long-term equity returns of 9.0% and AEGON Canada 9.5%, fixed income returns of 6% and money market returns of 3.5%. As equity markets do not move in a systematic manner, AEGON uses its best estimates while giving consideration to the effect of short-term swings in the equity markets. As a result, a 12% equity growth rate has been assumed for the next five years reverting to 9% for AEGON USA and 9.5% for AEGON Canada thereafter. All returns quoted above are gross returns and hence are before any asset management or mortality and expense fees are deducted. Such fees would be deducted from the assumed market returns when projecting the policyholder account values. Variable annuity fees range from approximately 1% to 2.5% of account values annually.

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 immediately as an extra write-off.

As a result of the general equity market decline in 2002 AEGON recorded an accelerated DPAC amortization charge of EUR 450 million, primarily related to the Americas, compared to an income statement benefit of EUR 22 million for 2001.

The movement in DPAC (life insurance) over 2002 can be summarized as follows:

	2002	2001
Balance at January 1	15,264	13,459
Deferred during the year	2,486	2,256
Amortization charged to the income statement	(1,520)	(1,203)
Other changes[1]	(2,141)	752
Balance at December 31	14,089	15,264

[1] Mainly caused by currency exchange rate differences.

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, 2002, the VOBA amounted to approximately EUR 5.3 billion (2001: EUR 7.2 billion).

The movement in DPAC (non-life insurance) over 2002 can be summarized as follows:

	2002	2001
Balance at January 1	1,202	545
Deferred during the year	401	302
Amortization charged to the income statement	(328)	(219)
Other changes[1]	(166)	574
Balance at December 31	1,109	1,202

[1] Mainly caused by currency exchange rate differences.

DPAC balances at December 31, 2002 by product and geographic segment are as follows:

	Americas	The Netherlands	United Kingdom	Other countries	Total
		Amounts in EUR million			
Traditional life	4,788	248	149	68	5,253
Fixed annuities	1,863				1,863
Fixed GIC s	54				54
Policyholder	741	831	3,718	29	5,319
Variable annuities	1,492				1,492
Fee income	102		6		108
Accident and health	1,073	36			1,109
Total	**10,113**	**1,115**	**3,873**	**97**	**15,198**

of which VOBA	4,002		1,345		5,347

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

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

effect on net earnings of lowering long-term equity assumptions by 1%	:approx. USD -110 million
effect on net earnings of eliminating the higher short-term equity growth rate assumptions	:approx. USD -230 million
effect on net earnings of lowering long term fixed income assumptions 1%	:approx. USD -30 million

Default Reserve and Impairment of Debt Securities

Provisions for future losses on fixed income investments (bonds, mortgage loans and private placements) are established as a result of default or other credit related issues. The provision reflects our management s judgement about future 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, including length of time and extent to which the market value of debt securities has been less than cost; industry risk factors; financial condition and near-term prospects of the issuer; and nationally recognized credit rating agency rating changes. Additionally for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled. Consideration is also given to management s intent and ability to hold a security until maturity or until fair value will recover.

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 are deferred in accordance with Dutch accounting principles.

The default reserve balance for Bonds and other fixed rate securities and Other loans at January 1, 2002 was EUR 313 million. It was increased in 2002 by a charge to the income statement of EUR 826 million and reduced by default losses on specific assets of EUR 747 million. At December 31, 2002 the balance was EUR 281 million.

Impact on Future Earnings

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

- the risk that our assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer;
- the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated; and
- the risk that new information obtained by us or changes in other facts and circumstances lead us to change our intent to hold the security to maturity or until it recovers in value.

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

Unrealized Bond Gains and Losses by Investment Type

The carrying value and fair value of Bonds and other fixed rate securities and Private placements are as follows at December 31, 2002:

	Carrying value	Unrealized gains	Unrealized losses	Fair value
		in million EUR		
US Government	4,517	104	(17)	4,604
Dutch Government	1,958	125	(10)	2,073
Other Government	5,238	323	(36)	5,525
Mortgage backed securities	23,179	669	(654)	23,194
Corporate bonds	62,437	4,096	(1,435)	65,098
Total	97,329	5,317	(2,152)	100,494
of which held by AEGON USA	84,021	4,566	(2,024)	86,563

The unrealized loss at December 31, 2002 of AEGON USA represents 94% of the AEGON Group s total unrealized losses. The following tables and information relate to AEGON USA only and excludes moneymarket investments and redeemable preferred shares held by AEGON USA.

The composition by investment type of all Bonds and Other loans in unrealized gain and loss status held by AEGON USA at December 31, 2002 is presented in the table below.

	DAP basis Carrying Value	Market Value	Net Unrealized Gain (loss)	Carrying Value of Securities with Gross Unrealized Gains	Gross Unrealized Gains	Carrying Value of Securities with Gross Unrealized Losses	Gross Unrealized Losses
				in million USD			
US Government	4,592	4,655	63	3,336	80	1,256	(17)
Foreign Government	1,177	1,252	75	1,019	107	158	(32)
Mortgage backed securities	24,249	24,264	15	15,126	699	9,123	(684)
Corporate bonds	54,265	56,821	2,556	45,499	3,895	8,766	(1,339)
Total bonds and Other loans	84,283	86,992	2,709	64,980	4,781	19,303	(2,072)

Unrealized Bond Losses by Sector

The composition by industry categories of Bonds and Other loans in an unrealized loss position held by AEGON USA at December 31, 2002 is presented in the table below.

Sector	**Carrying Value of Securities with Gross Unrealized Losses**	**Gross Unrealized Loss**
	in millions USD	
Electric	1,379	(358)
Transportation	765	(202)
Asset Backed Housing Related	3,493	(188)
Communications	857	(164)
Asset Backed CBO	1,060	(162)
Natural Gas	459	(155)
Banking	1,192	(132)
Asset Backed Credit Cards	1,382	(128)
Consumer Non Cyclical	939	(107)
Asset Backed Transportation	471	(107)
Consumer Cyclical	651	(91)
Other	6,655	(278)
	19,303	(2,072)

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, 2002, there are USD 4.8 billion of gross unrealized gains and USD 2.1 billion of gross unrealized losses on the fixed maturities portfolio. Gross unrealized losses of USD 1.2 billion or 60%, are concentrated in the asset backed housing related and CBOs, electric and natural gas, transportation, and communications industries.

Asset Backed Securities (ABS) and Collateralized Bond and Loan Obligations (CBOs): CBOs are collateralized by a diversified pool of corporate bonds or loans. The pool is financed by senior tranches, mezzanine tranches and equity. AEGON USA s portfolio consists of 64% senior classes of securities and 35% mezzanine classes that were rated investment grade at the time of purchase. The overall weak market for corporate bonds has caused a significant increase in CBO bond downgrades by the rating agencies. This environment has caused the secondary market for such bonds to be very illiquid. AEGON USA evaluates each transaction by modelling the expected cash flows assuming various scenarios for defaults and recoveries on the underlying bonds or loans. In cases where AEGON USA has not taken an impairment loss, these models indicate full recovery of principal and interest.

Asset Backed Housing-Related: Housing-related ABS bonds are collateralized by diversified pools of first and second-lien residential mortgage loans which are generally secured by 1-4 family residential housing properties or manufactured homes. Approximately 85% of AEGON USA s housing-related asset backed portfolio is backed by 1-4 family residential properties and 15% is backed by manufactured housing properties. The 1-4 family residential market has been relatively stable. 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.

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 bonds and rating downgrades to rise to unprecedented levels. AEGON USA evaluates each transaction by modelling the expected cash flows assuming various scenarios for defaults and recoveries on the underlying collateral. In cases where AEGON USA has not taken an impairment loss, these models indicate full recovery of principal and interest. Due to their illiquid nature, these assets are generally bought to hold to maturity.

Electric & Natural Gas (Utilities): The utility sector has faced a number of significant challenges in recent years including the California energy crisis, Enron bankruptcy, and the rapid financial deterioration of several leading companies in the merchant energy industry. Bondholders 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. In fact, a majority of merchant energy companies have seen their rating lowered to below investment grade, reflecting their limited financial flexibility and increased probability of default. These companies are seeking to improve their financial situation primarily through asset sales, and using the proceeds to reduce debt. While de-leveraging is positive from a credit standpoint, the scale, scope, and timing of these asset sales may make it difficult to realize the sellers desired value in many cases.

AEGON USA believes there will be continued volatility in bond 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. AEGON USA has taken impairment losses on those companies in this sector that it believes will not be successful in bridging liquidity needs.

Transportation: The airline industry was severely impacted by the fallout from September 11 and a continued weak economy. Industry revenues remain depressed due mainly to a continued weak pricing environment. Most major airlines continue to lose money and have shown balance sheet deterioration. An unstable geopolitical environment, especially related to the war with Iraq, makes a quick industry recovery unlikely. AEGON USA lends to this industry almost exclusively on a secured basis. These secured aircraft financings are of two types: Equipment Trust Certificates (ETC) and Enhanced Equipment Trust Certificates (EETC). The ETC initially have an 80% loan-to-value ratio and the EETC senior tranches initially have a 40-50% loan-to-value ratio and include a provision for a third party to pay interest for eighteen months after default. In order to lose money on these secured transactions, three things typically must happen: the airline must default, the airline must determine that it will no longer lease the specific aircraft, and the aircraft must be worth less than AEGON USA s loan (losses may also arise in re-negotiation of lease terms if AEGON USA anticipates this chain of events).

Communications: The communications sector faced a number of challenges in 2002 including over-capacity in the telecom sector leading to downward pricing pressure, weaker demand due to a deteriorating economy, technical substitution, liquidity concerns and SEC investigations. In addition, the massive accounting fraud at several companies and the subsequent bankruptcy filings dramatically impacted trading levels for many companies in the communications sector. With the increased emphasis on improving management credibility, controlling costs, generating free cash flow and deleveraging, AEGON USA expects gradually improving credit trends in the communications sector.

Unrealized Loss by Maturity

The table below shows the composition by maturity of all Bonds and Other loans in an unrealized loss position held by AEGON USA at December 31, 2002.

Maturity Level	**Carrying Value of Securities With Gross Unrealized Losses**	**Gross Unrealized Losses**
	in millions USD	
One year or less	606	(33)
Over 1 thru 5 years	5,365	(371)
Over 5 thru 10 years	5,515	(549)
Over 10 years	7,817	(1,119)
	19,303	(2,072)

Unrealized Loss by Credit Quality

The table below shows the composition by credit quality of all Bonds and Other loans in an unrealized loss position held by AEGON USA at December 31, 2002.

Credit quality	**Carrying Value of Securities With Gross Unrealized Losses**	**Gross Unrealized Losses**
	in millions USD	
Treasury Agency	1,332	(18)
AAA	2,449	(49)
AA	2,733	(129)
A	3,914	(280)
BBB	5,112	(559)
BB	1,437	(280)
B	1,206	(358)
BELOW B	1,120	(399)
	19,303	(2,072)

For clarity purposes, unrealized losses at year-end have been shown in two separate tables. The first table shows the magnitude of unrealized losses that materialized on these securities over various time periods (in millions).

Time Period	Unrealized Losses
	in millions USD
0-6 months	(1,293)
> 6 months to 12 months	(462)
> 12 months	(317)
	(2,072)

In the table above, if a security was in an unrealized loss position 12 months ago of $1 but at December 31, 2002, it was in an unrealized loss position of $10, then $1 would be presented in the greater than 12 month category.

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

Time Period	Investment Grade Carrying Value	Below Investment Grade Carrying Value	Investment Grade Unrealized Loss	Below Investment Grade Unrealized Loss
		in millions USD		
0-6 months	8,940	2,065	(350)	(386)
> 6 months to 12 months	2,009	897	(147)	(250)
> 12 months	4,591	801	(538)	(401)
	15,540	3,763	(1,035)	(1,037)

In the table above, if a security was in an unrealized loss position 12 months ago of $1 but at December 31, 2002, it was in an unrealized loss position of $10, then $10 would be presented in the greater than 12 month category.

Asset Backed Securities represent 50% of the $538m of investment grade and 28% of the $401 million of the below investment grade unrealized loss in the greater than 12 month period. These assets are priced similar to a forced sale, therefore large discounts are included for liquidity premiums and the uniqueness of each deal. Due to their illiquid nature, these assets are generally bought to hold to maturity. In cases where AEGON USA has not taken an impairment loss, these models indicate full recovery of principal and interest.

Realized gains and losses by AEGON USA in 2002 (representing 71% of the realized gains and 86% of the realized losses of the AEGON Group):

	Gross Realized Gains	Gross Realized Losses
	in millions USD	
Total Bonds and Private Placements/Other Loans	816	(1,576)

The gross realized losses of USD 1,576 million include USD 780 million of bond impairment losses. USD 816 million of gross realized gains and USD 796 million of gross realized losses, related to assets not considered impaired, have been deferred by AEGON USA in accordance with Dutch accounting principles and will be amortized into income over the estimated average remaining maturity term of the investments sold.

The fixed maturity securities to which these realized bond impairment losses apply were generally of investment grade quality at the time of purchase, but were subsequently downgraded by rating agencies to below-investment grade . Based upon consideration of all available information certain fixed maturity securities were deemed to be impaired and accordingly they were written down to management s best estimate of their future recoverable value. Impairment losses of USD 564 million, or 72%, were concentrated in asset-backed securities, electric and natural gas, transportation, and communications industries.

Mortgage Loans

The table below summarizes key information on mortgage loans held by AEGON USA and AEGON The Netherlands as at December 31, 2002, representing 99% of the mortgage loans of the AEGON Group.

	in millions EUR
Total Mortgage Loans	18,434
Impaired Mortgage Loans (loans subject to any kind of impairment)	43
Impaired Mortgage Loans as a Percentage of Total Loans	0.2%
Mortgage Loans Two or More Payments Delinquent	146
Restructured Loans in Good Standing	63
Reserves for Mortgage Loans	38

Indirect return method

AEGON accounts for capital gains and losses on investments in shares and real estate by applying the indirect return method. In the income statement the structural total return on investments in real estate and shares is recognized. The total return includes the direct income (rents and dividends) during the reporting period and an amount of indirect income (capital gains and losses). Under AEGON s accounting policy, unrealized and realized capital gains and losses are recognized in a revaluation reserve (a component of shareholders equity), which is carried on the balance sheet and does not flow directly through the income statement. Unrealized gains and losses on shares and real estate investments are due to changes in stock exchange quotations (if unquoted then at estimated market value) and reappraisal of real estate (at least every five years). The total return on equity investments for a given period is calculated by determining the average of the total historic return yield over the last 30 years and multiplying this average yield by the average value of these investments over the last seven years, adjusted for investment purchases and sales. The indirect income from these investments is then calculated as the difference between the total return and the direct income actually earned in the period. The indirect income is released from the revaluation reserve to the income statement, provided the balance of this account remains positive. In addition, AEGON is required by Dutch law to maintain a minimum reserve. This minimum reserve consists of the unrealized difference between the market value and the cost price of real estate and shares. The revaluation account balance at December 31, 2002 was EUR 2,598 million, consisting of realized gains of EUR 2,056 million and unrealized gains of EUR 542 million. The indirect income included in investment income was EUR 758 million and EUR 723 million for 2002 and 2001, respectively.

With International Accounting Standards (IAS) becoming AEGON s required reporting standard in 2005, it is AEGON s intention to discontinue the indirect return system of accounting for capital gains after 2003. Beginning with the first quarter of 2004 capital gains and losses will be reported as earnings in the income statement when realized. AEGON expects to recognize indirect income in 2003 of approximately EUR 450 million. Any remaining realized portion of the revaluation reserve not recognized in 2003 will be transferred directly the surplus fund at year-end 2003.

Impairment of equity securities

Shares are generally considered to be other than temporarily impaired if the market value is below cost for a period of at least six months.

However, independent third party documentation about the financial condition and near-term prospects of the issuer are also important factors taken into account. These factors typically require significant management judgement. For equity securities considered to have an other-than-temporary impairment during 2002, a realized loss was recognized. The impairment for the financial year amounted to EUR 1,057 million (2001: EUR 36 million). Within the application of the indirect return method this loss has been recognized in the realized part of the revaluation account with offset in the unrealized part of the revaluation account. There was no immediate income impact for the impairment loss. However, the realized part of the revaluation reserve must be positive for an indirect return to be reported.

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 the AEGON Group.

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

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

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

US GAAP SFAS 87 is applied to our US pension plans. SFAS 87 calculations require several assumptions, including future performance of financial markets, future composition of the work force and best estimates of long-term actuarial assumptions. The expected return on plan assets is calculated using a five-year moving average for the plan assets. In a period of market decline, such as recently experienced, this moving average is higher than the fair value of the assets. The difference between the expected return reflected in the income statements and the actual return on the assets in a certain year is deferred. Deferred gains or losses are amortized to the income statement applying a corridor approach. The corridor is defined as 10% of the greater of the moving average value of the plan assets or the projected benefit obligation. To the extent that the prepaid pension costs at the beginning of the year exceeds the moving average asset value less the pension benefit obligation by more than the 10% corridor, the excess is amortized over the employees average future years of service (approximately seven years). The assumptions are reviewed on an annual basis and changes are made for the following year, if required.

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

For 2003, AEGON USA will lower the expected long-term rate of return assumption from 9.0% to 8.25%. In 2002, the discount rate was lowered from 7.25% to 6.75%. AEGON USA expects that its pension benefit credit in 2003 will be lower than in 2002 by approximately USD 90 million as a result of these assumption changes and the decline in the moving average of the plan assets.

Unless there is a significant recovery in the equity markets in the next few years, the pension benefit credit is expected to continue to decline until the fair value of the plan assets equals or exceeds the moving average.

Pension plan contributions will not be required for AEGON USA in 2003, but will be required for AEGON The Netherlands and AEGON UK s defined benefit plans.

Results of Operations 2002 compared to 2001

Summary

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

Income before tax	1,849	3,243	*-43*
Corporation tax	-353	-918	*-62*
Transamerica Finance Corporation	51	72	*-29*
Net income	**1,547**	**2,397**	***-35***

	Americas	The Netherlands	United Kingdom	Other countries	Total
			amounts in millions EUR		
2002					
Total life insurance gross premiums	7,218	3,573	6,433	517	17.741
Accident and health insurance premiums	2,608	162		78	2,848
General insurance premiums	0	447		320	767
Total gross premiums	9,826	4,182	6,433	915	21,356
Investment income insurance activities	7,546	1,454	176	149	9,325
Income from banking activities		416			416
Total revenues business units	17,372	6,052	6,609	1,064	31,097
Income from other activities					47
Total revenues					31,144
Number of employees, including agents	15,392	3,030	6,018	2,219	26,659

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

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

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

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

Further deterioration in the economic outlook could reduce levels of business activity due to a decline in customer confidence. Reduced equity market and fixed income market returns would impact earnings and capital requirements. Even if equity markets improve it is possible that consumer confidence has been so significantly damaged that the sale of equity-based products may not reach the levels of the late 1990s in the near to medium term.

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

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

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

The following selected financial data should be read in conjunction with our consolidated financial statements and the related notes to the financial statements in Item 18 of this Annual Report.

Americas (includes AEGON USA and AEGON Canada)

	in million USD			**in million EUR**		
	2002	**2001**	**%**	**2002**	**2001**	**%**
Income by product segment						
Traditional life	813	792	*3*	859	884	*-3*
Fixed annuities	165	321	*-49*	174	358	*-51*
GICs and funding agreements	257	193	*33*	272	215	*27*
Life for account policyholders	106	93	*14*	112	104	*8*
Variable annuities	-437	107		-462	120	
Fee business	5	74	*-93*	5	83	*-94*
Book profit Mexico		307			343	
Life insurance	909	1,887	*-52*	960	2,107	*-54*
Accident and health insurance	233	146	*60*	246	164	*50*
General insurance	0	1		0	1	
Income before tax	1,142	2,034	*-44*	1,206	2,272	*-47*

Corporation tax	-226	-606	*-63*	-239	-677	*-65*
Net income	**916**	**1,428**	***-36***	**967**	**1,595**	***-39***

Income before tax

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

Traditional life products generated income before tax of USD 813 million, an increase of 3% over 2001. These products were negatively impacted by USD 160 million of bond default provisions and lower investment yields. Fixed annuity products generated income before tax of USD 165 million, a decline of 49% from 2001. These products experienced the brunt of bond defaults with USD 401 million. Efforts taken to reduce credit exposure early in the year also reduced investment income causing spreads to narrow, although a lower lapse rate and reduced DPAC amortization provided some positive relief. Fixed annuity interest crediting rates may be adjusted, subject to minimum guarantees, on policy anniversary dates, allowing for improved spreads. GICs and funding agreements generated income before tax of USD 257 million, an increase of 33% from 2001. The investment portfolio for these products utilizes swaps to effectively convert these liabilities to a floating rate. The investment strategy includes primarily floating rate instruments but utilizes a mismatch strategy where the matched assets have a slightly longer (about 1/4 of a year) maturity than the liabilities. This provided increased investment spread during 2002 that helped to offset USD 174 million of default losses on these products. Life for account of policyholders generated USD 106 million of income before tax, an increase of 14% over 2001. The policyholder bears the investment risk while the company earns fees and cost of insurance charges. Variable annuity products generated a loss of USD 437 million before tax compared to income of USD 107 million last year. This loss resulted from the additional DPAC amortization and the provisions for guaranteed minimum benefits discussed previously. Fee business included USD 74 million of income in 2001 from the Mexico joint ventures, which were sold at the end of 2001.

Net income

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

Revenues

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

Commissions and expenses

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

The gross margin of USD 4,676 million decreased 8% from 2001 or 2% when adjusted for the gain in 2001 on the sale of the Mexico joint ventures. The gross margin is after deduction of benefits to policyholders, technical provisions and the bond default provision, but before deduction of commissions and operating expenses. Aggressive efforts were taken early in 2002 to anticipate problem credits in the bond portfolio, reduce credit limits, and tighten controls. While these actions mitigated the effect of unprecedented levels of corporate bond defaults, elevated losses were nonetheless incurred. Accordingly, USD 774 million was added to the default provision during 2002, while impairments of USD 791 million were charged against existing provisions, leaving a balance at December 31, 2002 of USD 281 million (see Application of Critical Accounting Policies Dutch Accounting Principles for a detailed discussion of this item).

Production

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

Off balance sheet products include managed assets such as mutual funds and collective investment trusts and synthetic GICs.

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

Other

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

The Netherlands

	2002	2001	% change
	in million EUR		
Income by product segment			
Traditional life	552	614	