3.4 Risk Factors

i. Risks relating to our Business

Interest Rate Risk

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

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

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

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

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

Credit Risk

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

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, we typically bear the risk for investment performance – return of principal and interest. We are exposed to credit risk on our general account fixed income portfolio (bonds, mortgages and private placements), over-the-counter derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy or downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in our major markets resulted in significant investment impairments on our investment assets due to defaults and overall declines in the securities markets. Although credit default rates were moderate in 2004, a reversion to excessive defaults, or other reductions in the value of these securities and loans, could have a material adverse effect on our business, results of operations and financial condition.

Equity Market Risk

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

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

Some products sold by AEGON contain minimum return or accumulation guarantees. We are at risk if equity market returns do not exceed these guarantee levels and may need to set up additional reserves to fund these future guaranteed benefits. We are also at risk if returns are not sufficient to allow amortization of deferred policyholder acquisition costs. It is possible under certain circumstances that we would need to accelerate amortization of DPAC and to establish additional provisions for minimum guaranteed benefits, which would reduce net income and shareholders' equity. Volatility or poor market conditions may also significantly reduce the popularity of some of our savings and investment products, which could lead to lower sales and net income. During 2002, 2003 and 2004, we recognized accelerated amortization of deferred policy acquisition costs of EUR 450 million, EUR 129 million and EUR 39 million and increased provisions for products with guaranteed minimum benefit provisions by EUR 482 million, EUR 52 million and EUR 50 million, respectively.

Underwriting Risk

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

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

Currency Exchange Rate Risk

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

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

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

Liquidity Risk

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

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

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

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Other Risks

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

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

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

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

	S&P rating	S&P outlook	Moody’s rating	Moody’s outlook
AEGON USA	AA	Stable	Aa3	Stable
AEGON NL	AA	Stable	Not Rated	Not Rated
Scottish Equitable	AA	Stable	A1	Stable

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

Our insurance business is subject to comprehensive regulation and supervision in all countries in which we operate. The primary purpose of such regulation is to protect policyholders, not holders of securities. Changes in existing insurance laws and regulations may affect the way in which we conduct business and the products offered. Changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may adversely affect our ability to sell new policies or claims exposure on existing policies. Additionally, the insurance laws or regulations adopted or amended from time to time may be more restrictive or may result in higher costs than current requirements.

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

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

AEGON may be unable to manage its risks successfully through derivatives

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

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

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

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

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

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

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

Competitive factors may adversely affect our market share

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

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

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

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

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

Judgments of US courts may not be enforceable against AEGON in Dutch courts

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

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

AEGON’s insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse for the ceded amount in the event the claim is paid. However, AEGON’s insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. See Item 18, “Financial Statements”—“Schedule to Financial Statements”—“Reinsurance”, of this annual report for a table showing life insurance in force amounts on a direct, assumed and ceded basis for 2002, 2003 and 2004. See also Item 18, “Financial Statements”, Notes 18.1.14 and 18.1.15 of this annual report for the amount of reserve reduction taken at each balance sheet date for reinsurance ceded.

In accordance with industry practices, AEGON reinsures a portion of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Approximately 42% of AEGON’s total direct and assumed (for which AEGON acts as a reinsurer for others) life insurance in force is ceded to other insurers. In the United States, Transamerica Reinsurance retrocedes a significant portion of the risk it assumes. The major reinsurers of AEGON USA are Clarica Life Insurance Company, European Re of Zurich, Manulife Reinsurance Limited, Munich American Reassurance Company, RGA Reinsurance Company, Security Life of Denver and Swiss Re. AEGON Canada’s major reinsurers are Munich Re, Swiss Re and RGA Reinsurance Company. The major reinsurers of AEGON UK include GE Frankona and Swiss Re. The major reinsurers for non-life insurance for AEGON The Netherlands are GE Frankona, Partners Re and Swiss Re. The major reinsurers of AEGON Hungary are Swiss Re and Munich Re. AEGON Spain’s major reinsurers are GE Frankona, General Re, Munchener and Nacional.

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

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

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

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

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

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

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

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

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

ii. Risks Relating to AEGON's Common Shares

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

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

- investor perception of AEGON as a company;
- actual or anticipated variations in AEGON's revenues or operating results;
- announcement by us of intended acquisitions, disposals or financings or speculation about such acquisitions, disposals or financings;
- changes in AEGON's dividend policy, which could result from changes in AEGON's cash flow and capital position;
- sales of blocks of AEGON's shares by significant shareholders, including Vereniging AEGON;
- a downgrade or rumored downgrade of AEGON's credit or financial strength ratings, including placement on credit watch;
- potential litigation involving AEGON or the insurance industry in general;
- changes in financial estimates and recommendations by securities research analysts;

- fluctuations in foreign exchange rates and interest rates;
- the performance of other companies in the insurance sector;
- regulatory developments in the Netherlands, the United States, Canada, the United Kingdom and Other Countries;
- international political and economic conditions, including the effects of terrorist attacks, military operations and other developments stemming from such events and the uncertainty related to these developments;
- news or analyst reports related to markets or industries in which AEGON operates; and
- general market conditions.

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

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

It is possible that AEGON may decide to offer additional common shares in the future, for example to effect an acquisition. In connection with Vereniging AEGON’s refinancing in September 2002, it entered into an equity repurchase facility (“Repo Facility”) and a back-up credit facility (“Back-up Facility”). As is customary in these repurchase agreements, if sufficient collateral is not maintained by Vereniging AEGON (which in this case is based on the number of common shares and the prevailing share price) and amounts are not available under the Back-up Facility, the lenders under the Repo Facility may dispose of our common shares held by them under the Repo Facility in order to satisfy amounts outstanding. An additional offering of common shares by us, sales of common shares by significant shareholders or by lenders to Vereniging AEGON, or the public perception that an offering or such sales may occur, could have an adverse effect on the market price of our common shares. As of December 31, 2004, the total authorized share capital of AEGON consisted of 3,000,000,000 common shares, par value euro 0.12 per share, and 1,000,000,000 preferred shares A and B, par value euro 0.25 per share. All our outstanding common shares are freely tradable, and all shareholders, including large shareholders such as Vereniging AEGON, are free to resell their shares at any time.

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

Prior to September 2002, Vereniging AEGON, our major shareholder, beneficially owned approximately 52% of the voting shares and thus held voting control over AEGON. In September 2002, Vereniging AEGON reduced its beneficial ownership to approximately 33% of the voting shares (excluding issued common shares held in treasury by AEGON). Pursuant to the 1983 Merger Agreement between AEGON and Vereniging AEGON, as amended, Vereniging AEGON, in case of an issuance of shares by AEGON, may purchase as many class B preferred shares as would enable it to prevent or correct a dilution to below its actual percentage of the voting shares. The option granted to Vereniging AEGON permits it to purchase class B preferred shares up to a maximum of the non-issued part of the class B preferred shares included from time to time in AEGON’s authorized capital if necessary to prevent or correct such dilution. The class B preferred shares will then be issued at par value (euro 0.25), unless a higher price is agreed. In 2003, Vereniging AEGON exercised its option rights to purchase in aggregate 11,100,000 class B preferred shares at par value to correct dilution caused by AEGON’s stock dividend issuances and treasury stock sales during the year. In 2004, Vereniging AEGON exercised its option rights to purchase in aggregate 5,800,000 class B preferred shares at par value to correct dilution caused by AEGON’s stock dividend issuances and treasury stock sales during the year.

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

- adopting amendments to the Articles of Incorporation;
- adopting the annual accounts;
- approving a consolidation or liquidation;
- approving a tender offer, merger, sale of all or substantially all of the assets or other business combination;
- in particular during the periods when Vereniging AEGON is entitled to exercise its increased voting rights, it will have sufficient voting power to veto certain decisions presented to the General Meeting of Shareholders, including any proposal relating to the following matters:

(1) rejecting binding Supervisory Board nominations for membership on the Supervisory Board and Executive Board;

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

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

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

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

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

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