



DON SHEPARD  
CHAIRMAN OF THE  
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### *Making money in a low interest rate environment*

Low interest rates affect our earnings and are a factor for everyone in our industry. Declining interest rates have an effect on our general account fixed income investments, which includes the assets supporting traditional life products. It is important to point out however, that portions of AEGON's business are in fact not dependent on interest rates. For example, earnings on traditional life products, the largest part of our business are, to a certain extent, derived from mortality experience. In addition, our product offering is very broad and includes a wide range of products that is less sensitive to interest rates. We are also well-positioned to meet customer preferences for equity-related products in this low interest rate environment.

There are, of course, management actions that can be taken to reduce the effects of lower interest rates. In the United States, we have taken a number of steps to mitigate the effects of the current low interest environment on our fixed annuity products. Examples include lowering crediting rates to existing policyholders, adjusting commission structures, re-filing with most states to lower the interest guarantee on new products, and eliminating commissions on fixed annuities in states where re-filing was not possible.

Expense management is also important. I believe AEGON is one of the most cost efficient insurance companies in the world, which is even more beneficial in this climate. The current reorganizations in the United Kingdom and the Netherlands, as well as cost reduction initiatives in the United States, are all part of this drive to increase efficiency. We are concentrating our efforts on directing resources to areas that will provide maximum return.

### *The potential for growth in AEGON's mature markets*

The key to achieving growth is distribution. For this reason we have continued the development of our distribution channels through banks in the United States and Spain, as well as brokers in the Netherlands and independent financial advisors in the United Kingdom. Distribution is, and will continue to be, a fundamental aspect of AEGON's strategy.

Another important aspect is scale, which AEGON has achieved. We have leadership positions in each of our chosen markets and we plan to strengthen our presence in these markets over the coming years.

However, increasing market share does not come through distribution and scale alone. Fulfilling our customers' needs in terms of the quality and range of products is essential. Our customers increasingly have multiple insurance needs and we have to ensure that we are able to meet their demands. The ability to deliver this is what distinguishes AEGON from the competition.

### *What do the recent corporate governance developments mean for AEGON's shareholders?*

AEGON's Articles of Incorporation were amended in May of 2003, following approval by our shareholders. The change increased the authority of AEGON's common shareholders and aligned the voting rights of Vereniging AEGON (Association AEGON) with its economic interest. The amendments replace a structure that dates back to a time when AEGON was mainly operating in the Netherlands. We are committed to meeting emerging global best practices in corporate governance and this decision is consistent with that goal.

As I mentioned in my letter to shareholders, the Dutch Corporate Governance Code is also an important development that will raise corporate governance standards for Dutch companies. AEGON already complies with most of the code and we are currently assessing all of its recommendations.

### *Why is corporate responsibility such an important issue for AEGON?*

We recognize that a company's performance and profitability go hand in hand with good business practices. Companies should devote proper consideration of their wider responsibilities to the communities in which they operate. AEGON does so. For any corporate responsibility strategy to succeed, it must start