CHRISTOPHER & BANKS CORP
Form 8-K
September 10, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 10, 2015

CHRISTOPHER & BANKS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-31390	06-1195422
(Commission File Number)	(IRS Employer Identification No.)

2400 Xenium Lane North

Plymouth, Minnesota 55441

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (763) 551-5000

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c)

Item 2.02Results of Operations and Financial Condition.

The following information is being "furnished" in accordance with General Instruction B.2 of Form 8-K and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended (the "Securities Act"), except as expressly set forth by specific reference in such filing.

On September 10, 2015, Christopher & Banks Corporation (the "Company") issued a press release disclosing material, non-public information regarding the Company's operating results for the thirteen-week period ended August 1, 2015.

The press release issued on September 10, 2015 is furnished as Exhibit No. 99.1 to this Current Report on Form 8-K and should be read in conjunction with the registrant's reports on Forms 10-K, 10-Q and 8-K, and other publicly available information, which contain other important information about the registrant.

Cautionary Statements. This filing and the exhibits include "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could impair the Company's business are disclosed in the "Risk Factors" contained in the Company's Report on Form 10-K filed with the Securities and Exchange Commission on April 9, 2015. All forward-looking statements are expressly qualified in their entirety by such factors. We do not undertake any duty to update any forward-looking statement except as required by law.

Item 9.01Financial Statements and Exhibits.

(a) Financial statements: None

(b) Pro forma financial information: None

(c) Shell company transactions: None

(d) Exhibits:

99.1 Christopher & Banks Corporation Press Release dated September 10, 2015.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	CHRISTOPHER & BANKS CORPORATION
Date: September 10, 2015	By: /s/ Pete G. Michielutti Pete G. Michielutti Executive Vice President, Chief Operating Officer and Chief Financial Officer

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

CHRISTOPHER & BANKS CORPORATION

EXHIBIT INDEX TO FORM 8-K

Date of Report:	Commission File No.:
September 10, 2015	001-31390

CHRISTOPHER & BANKS CORPORATION

Exhibit Number	Description
99.1	Christopher & Banks Corporation Press Release dated September 10, 2015.

">

Bonds and private placements

90,286 94,009 97,329 100,494

Loans guaranteed by mortgage

16,748 18,011 18,568 20,039

Investments for the account of policyholders

100,089 100,089 94,728 94,728

Cash and short term investments				
	1,645	1,645	1,587	1,587
Current liabilities and accruals and deferred income				
	17,039	17,039	18,006	18,006
Capital securities				
	1,925	2,098	2,008	2,259
Subordinated loans				
	452	495	616	647
Long-term liabilities				
	4,692	5,053	3,856	3,679
Investment contract liabilities				
	56,857	55,853	64,766	60,422

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	December 31, 2003		December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest rate contracts				
Interest rate swaps	146	(115)	62	(762)
Swaptions	0	0	0	0
Caps/floors	3	14	6	24
Forward rate agreements	0	14	0	2
Other derivative contracts				
Cross currency swaps	596	622	203	249
Foreign exchange contracts	79	78	57	57
Equity swaps	36	(346)	37	(341)
Over-the counter options	39	41	71	71
Credit derivatives	(2)	(2)	(4)	(7)
Exchange traded options/futures	(1)	15	74	72
Synthetic GICs		0		6

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Real estate

Real estate is reported in the balance sheet at appraisal value based on fair value when leased. At least 20% of property is revalued annually, so that each unit is revalued once in every 5-year period. New property is valued at construction cost including interest during the construction period, or at purchase price.

Shares

The fair values for shares are based on quoted market prices or, if unquoted, at estimated fair value and are recognized in the balance sheet.

Bonds and Private placements

Fair values for fixed maturity securities are based on quoted market prices, where available. For fixed maturities not actively traded, fair values are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment.

Loans guaranteed by mortgage

The fair value for loans guaranteed by mortgage is estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations.

Investments for the account of policyholders

Investments for the account of policyholders and insurance-linked savings deposits are generally valued at fair value.

Cash and Short-term investments

The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

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Current liabilities and accruals and deferred income

The carrying amounts of the Company s current liabilities and accruals and deferred income approximate their fair value.

Long-term liabilities and subordinated loans

The fair value of the Company s long-term liabilities and subordinated loans is based on quoted market prices, where available, or is estimated using discounted cash flow analyses, based on the Company s current borrowing rates for similar types of borrowing arrangements.

Investment contract liabilities (included in technical provisions)

Fair values for the Company s liabilities under investment-type insurance contracts are estimated using discounted cash flow calculations, based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

Derivatives

The fair value of the derivatives generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts on reporting date. Market quotes are available for many derivatives; for those products without readily available market quotes generally accepted valuation models are used to estimate fair value.

For more information on derivatives see Note 18.1.21.

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18.6.5 Additional disclosure for unrealized investment losses

Unrealized Bond Losses

The following table excludes money market investments of EUR 1,557 million as they are carried at market value. The table is presented in EUR million of euros and represents the composition by investment type of all bonds, preferred stock, other loans and equities in an unrealized loss status held by AEGON USA at December 31, 2003. The following information has been prepared according to Dutch accounting principles (DAP).

	Less than 12 months		12 months or more		Total	
	Carrying value of securities with gross unrealized losses	Gross unrealized losses	Carrying value of securities with gross unrealized losses	Gross unrealized losses	Carrying value of securities with gross unrealized losses	Gross unrealized losses
						in EUR million
US Government	1,158	(16)	354	(8)	1,512	(24)
Foreign Government	64	(4)	10	(2)	74	(6)
Mortgage backed securities	2,314	(42)	344	(20)	2,658	(62)
Asset backed securities	2,503	(47)	1,568	(251)	4,071	(298)
Corporate bonds	8,543	(212)	2,008	(48)	10,551	(260)
Equities	219	(16)	126	(36)	345	(52)
Total Bonds, Preferred Stock, Other loans, and Equities	14,801	(337)	4,410	(365)	19,211	(702)

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

	Carrying Value of Securities with Gross Unrealized Losses		Gross Unrealized Losses	
	2003	2002	2003	2002
				in million EUR
Asset Backed Securities:				
Aircraft	289	432	(112)	(107)
CBOs	580	1,036	(49)	(159)
Housing Related	1,802	3,331	(45)	(180)
Credit Card	384	1,318	(10)	(122)
CMBS	2,079	1,052	(39)	(45)
Consumer Cyclical	807	642	(29)	(87)
Consumer Non-Cyclical	1,419	895	(40)	(102)
Electric, Energy & Natural Gas	1,933	2,154	(78)	(552)
Financials	3,768	2,197	(106)	(218)

Industries	3,098	2,220	(108)	(290)
Other	5,512	4,492	(127)	(290)
Total	21,671	19,769	(743)	(2,152)
of which held by AEGON USA	18,867	18,407	(649)	(1,976)

Asset Backed Securities (ABS)

Aircraft-related ABS notes are primarily collateralized by the long-term revenue stream generated from leasing a diversified pool of commercial aircraft to a diversified group of aircraft operators around the world. These pools are typically financed with first priority senior debt, second priority mezzanine debt, third priority junior debt and equity. Approximately 63% of AEGON USA s portfolio is first priority senior debt and 37% is second priority mezzanine debt, all rated investment grade at time of purchase, approximately 69% of the portfolio is currently

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rated investment grade. AEGON USA holds no debt securities that are in a junior debt or equity position. The weak commercial aircraft environment, in part originated by the events of September 11, 2001, has caused lease rates to decline. This has put pressure on the cash flows within these trusts. Increased risk premiums associated with the current market, as well as a significant extension of the time period within which debt securities are expected to be repaid, have caused prices for many debt securities in this sector to decline. Although the current environment for aircraft leasing remains weak, there are signs that the downturn may be nearing an end and any future cyclical upturn in lease rates will benefit these debt securities over their very long maturity. AEGON USA evaluates each transaction quarterly using the most recent appraisals (and other outside relevant information) of the equipment, which are received from the servicer and completed by independent parties who have expertise in this field, as a proxy for expected cash flows. In cases where AEGON has not taken an impairment loss, these appraisals indicated full recovery of principal and interest at the expected yield.

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

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

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

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

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interest at the expected yield. This security is not a traded security and therefore the market bids received are heavily discounted due to the long duration as well as the uniqueness and illiquidity. AEGON has the intent and ability to hold these debt securities until recovery or maturity.

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

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

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

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

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

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

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

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

Electric, Energy & Natural Gas (Utilities)

The utility sector has faced a number of significant challenges in recent years including the California energy crisis, bankruptcies, and the rapid financial deterioration of several leading companies in the merchant energy industry. Noteholders are experiencing extreme volatility as the increased financial and business risk associated with non-regulated activities has led to a substantial number of ratings downgrades. During 2003, most companies have been successful in accessing the capital markets to refinance near-term debt maturities, thus reducing a significant amount of refinancing risk. Examples of such companies include: AES Corp, Aquila, Calpine, CenterPoint Energy, Dynegy, Reliant Resources and Williams Companies. The extension of credit has provided much needed time to these issuers as they work through the process of improving liquidity, reducing overall leverage, and strategically re-focusing on core, asset-based businesses. AEGON believes there will be continued volatility in debt values as companies work through their individual restructuring plans. On the other hand, companies with solid regulated operations (either electric or natural gas) have exhibited much less volatility due to the protection afforded by state and/or federal regulation. Impairment losses have been taken on those companies in this sector that have not demonstrated the ability to be successful in bridging liquidity needs.

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

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

Banking

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

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

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Unrealized Equity Losses

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

	Carrying Value of Securities with Gross Unrealized Losses		Gross Unrealized Losses	
			in million EUR	
	2003	2002	2003	2002
Communications	17	37	(1)	(5)
Consumer Cyclical	39	117	(10)	(22)
Consumer Non-Cyclical	77	800	(5)	(80)
Financials	205	459	(7)	(45)
Funds	160	161	(14)	(37)
Industries	63	120	(4)	(20)
Resources	1	74	(0)	(15)
Services Cyclical	94	257	(4)	(47)
Services Non-Cyclical	21	126	(2)	(24)
Technology	14	73	(2)	(7)
Transportation	13	0	(1)	(0)
Other limited partnerships	165	209	(33)	(256)
Other	117	393	(9)	(40)
Total	986	2,826	(92)	(598)
of which held by AEGON The Netherlands and AEGON USA	876	2,437	(86)	(536)

The composition of equities by industry sector in an unrealized loss position held by AEGON The Netherlands and AEGON USA in the available for sale portfolio (and therefore excluding the trading portfolio) at December 31, 2003 is presented in the table below.

Sector	Carrying Value of Equities with Gross Unrealized Losses	Gross Unrealized Losses
		in million EUR
Communication	2	0
Consumer Cyclical	22	(3)
Consumer Non-Cyclical	69	(5)
Financials	166	(8)
Funds	61	(9)
Industries	62	(3)
Resources	1	(0)
Services Cyclical	94	(4)
Service Non-Cyclical	21	(2)
Technology	58	(7)
Other	61	(4)
Total	617	(45)

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Reconciliation of Equity Securities Unrealized Gains and Losses

Unrealized gains and losses on equity securities are recognized in shareholders equity under US GAAP, taking into account the related (deferred) taxes. Gross unrealized gains and gross unrealized losses under a US GAAP differ from those presented under DAP. The following is a reconciliation of these amounts from DAP to US GAAP.

	Cost Price	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
				in million EUR
Amounts at December 31, 2003:				
DAP basis	5,540	1,097	(92)	6,545
Deduct equity securities classified as trading for US GAAP	(1,407)	(320)	43	(1,684)
US GAAP basis	4,133	777	(49)	4,861
Amounts at December 31, 2002:				
DAP basis	6,069	853	(598)	6,324
Deduct equity securities classified as trading for US GAAP	(1,815)	(464)	285	(1,994)
US GAAP basis	4,254	389	(313)	4,330

18.6.6 Summary description of US GAAP goodwill accounting

Under US GAAP goodwill is capitalized and prior to January 1, 2002 was amortized over the expected periods to be benefited with adjustments for impairment, if necessary. Effective January 1, 2002 goodwill is no longer amortized but is tested for impairment annually. Pursuant to the transitional rules of SFAS 142, we have completed a two-step impairment test during the first six months of 2002 and, as a result of that test, we recorded the cumulative effect of the accounting change for the goodwill impairment charge as of January 1, 2002 of EUR 1,295 million. This non-cash impairment charge related primarily to the Transamerica non-insurance business. Factors resulting in the impairment charge were the downturn in the economic environment, particularly in the technology sector of the commercial lending segment, and increased price competition from other financial institutions.

The required annual goodwill impairment test was performed in the fourth quarter and resulted in a goodwill impairment charge of EUR 213 million in the Transamerica non-insurance reporting unit.

There is no impact to AEGON s net income or financial condition based on DAP since goodwill is not established as an asset but is charged to equity at the time an acquisition is made.

Impairment testing required the determination of the fair value for each of the identified reporting units. The fair value of the insurance operations in the Americas was determined using discounted cash flow valuation techniques consistent with market appraisals for insurance companies. This model utilized various assumptions, with the most significant and sensitive of those assumptions being a 9% discount rate, 15 years of projected new business and annual new business production increases of 2%. If the discount rate assumption were increased to 11%, the remaining goodwill balance of the Americas of EUR 1.8 billion would become impaired. For our non-insurance operations, fair value was determined using a discounted cash flow analysis. Fair value of the operations in the United Kingdom has been determined using appraisal value methodology which also uses discounted cash flow techniques. The total impairment charge amounted to EUR 219 million for 2003 and relates to both the Americas and the United Kingdom. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the determination of fair value involve significant judgments and estimates. The discount rates used are believed to represent market discount rates, which would be used to value businesses of similar size and nature. Prior to the adoption of SFAS 142, the determination of whether goodwill was recoverable was based on projected, undiscounted cash flows from the earnings of AEGON s business segments during the remaining amortization period.

AEGON has recognized two purchased intangible assets, goodwill and value of business acquired (VOBA). The excess of the cost over the fair value of identifiable assets acquired in business combinations, including VOBA, is recorded as goodwill. VOBA is equal to the present value of estimated future profits of insurance policies in force related to business acquired.

The changes in the carrying value of goodwill presented for each business segment, for the year ended December 31, 2003, were as follows:

	Americas	The Netherlands	United Kingdom	Other Countries	Total
Goodwill balance at January 1, 2003	2,533	34	714	91	3,372
Goodwill acquired during the period		313	11	34	358
Impairment charge	(213)		(6)		(219)
Foreign currency differences	(388)		(54)	(9)	(451)
Goodwill released on sale of subsidiaries	(101)				(101)
Goodwill balance December 31, 2003	1,831	347	665	116	2,959

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Information related to the VOBA

	2003	2002
Gross carrying amount	6,651	7,778
Accumulated amortization	(2,701)	(2,431)
Net carrying amount	3,950	5,347
Amortization expense	444	719

Estimated amortization expense for the years 2004 through 2008 is EUR 347 million, EUR 324 million, EUR 292 million, EUR 277 million and EUR 260 million, respectively.

The changes in the carrying value of the VOBA presented for each business segment, for the year ended December 31, 2003, are as follows:

	Americas	The Netherlands	United Kingdom	Other Countries	Total
VOBA balance at January 1, 2003	4,002		1,345		5,347
VOBA amortization	(407)		(37)		(444)
Foreign currency translation	(520)		(103)		(623)
Other adjustments	(330)				(330)
VOBA balance December 31, 2003	2,745		1,205		3,950

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18.6.7 Business segment information

Pursuant to Financial Accounting Standard No. 131 Disclosures about segments of an enterprise and related information (SFAS 131) business segments are defined on the same basis that the Company is managed.

AEGON has the following reportable geographic segments: Americas, the Netherlands, United Kingdom and Other countries, which include Hungary, Spain and other units. Crucial differences exist in local markets and for this reason AEGON emphasizes a decentralized organization structure. The operating companies, with knowledgeable and highly experienced local management and employees, market their own, unique products using tailored distribution channels. Approximately 90% of AEGON s core business is life insurance, pension and related savings and investment products. The Group is also active in accident and health insurance, property and casualty insurance and limited banking activities.

AEGON evaluates performance and allocates resources based on income before interest charges and taxes, based on Dutch accounting principles. The accounting policies of the reportable segments are the same as those used for the consolidated financial statements. Intersegment revenue and expenditures for additions to long-lived assets are not significant.

	2003	2002	2001
Revenues:			
Americas	14,846	17,372	18,176
The Netherlands	5,953	6,052	6,073
United Kingdom	6,201	6,609	6,517
Other Countries	1,395	1,064	1,036
Other	34	47	93
	28,429	31,144	31,895
Income before tax:			
Americas	1,538	1,206	2,272
The Netherlands	771	659	924
United Kingdom	188	233	372
Other Countries	79	64	72
Interest charges and other	(429)	(313)	(397)
	2,147	1,849	3,243
Identifiable assets			
Americas	136,374	146,253	163,205
The Netherlands	46,755	43,502	45,676
United Kingdom	47,788	45,910	53,008
Other Countries	3,059	2,541	2,172
	233,976	238,206	264,061

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The tables below show the Company s revenues, income before tax and identifiable assets by line of business.

	2003	2002	2001
Revenues:			
Life insurance	24,251	26,435	27,620
Non-life insurance	3,790	4,246	3,798
Banking activities	354	416	384
Other non-insurance activities	34	47	93
	28,429	31,144	31,895
Income before tax:			
Life insurance	2,212	1,814	3,319
Non-life insurance	344	340	276
Banking activities	20	8	45
Interest charges and Other	(429)	(313)	(397)
	2,147	1,849	3,243
Identifiable Assets:			
Insurance	226,678	230,042	255,045
Banking activities	6,711	7,443	7,417
Other non-insurance activities	587	721	1,599
	233,976	238,206	264,061

For more information on reportable segments see Note 18.3 Segment information.

18.6.8 Shareholders equity

Set forth below are changes in shareholders equity for the past three years.

	2003	2002	2001
Preferred Shares			
Balance at January 1	53	53	53
Issued	3		
Repurchased			
Balance at December 31	56	53	53

Vereniging AEGON holds all the issued preferred shares. From the net profit first of all a preferred dividend will be paid out, based on the official rate of disbursement. Dividends were 5% in 2002 and 4.75% in 2001 and 2000. Apart from this no additional dividend is to be paid on the preferred shares.

Common Shares

Balance at January 1	173	171	162
Change in par value			
Issuance of shares			7
Stock dividend	9	2	2
Exercised options			0
Balance at December 31	182	173	171

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	Paid-in surplus	Revaluation account	Other surplus fund	Total
Surplus funds				
Balance at January 1, 2001	3,395	6,177	1,574	11,146
Net income 2000 excluding preferred dividend			2,063	2,063
Issuance of new shares	1,677			1,677
Repurchased own shares			(21)	(21)
Valuation Equity Swap			(19)	(19)
Exercised options	3			3
Stock dividend	(1)		(1)	(2)
Final and interim dividends			(541)	(541)
Revaluation group companies		(1,537)	436	(1,101)
Currency exchange rate differences			(50)	(50)
Cash settlement subordinated convertible loan			(68)	(68)
Goodwill			(286)	(286)
Sale Mexico			602	602
Settlement stock option plan			(71)	(71)
Other movements			(27)	(27)
Balance at December 31, 2001	5,074	4,640	3,591	13,305
Net income 2001 excluding preferred dividend			2,394	2,394
Paid in capital on preferred shares	2,053			2,053
Valuation equity swap			(318)	(318)
Exercised options			0	0
Stock dividend	(2)			(2)
Final and interim dividends			(731)	(731)
Revaluation group companies		(2,042)	(1,392)	(3,434)
Currency exchange rate differences			(703)	(703)
Goodwill			(70)	(70)
Settlement stock option plan			(6)	(6)
Other movements			0	0
Balance at December 31, 2002	7,125	2,598	2,765	12,488
Net income 2002 excluding preferred dividend			1,517	1,517
Final and interim dividends			(147)	(147)
Repurchased and sold own shares			19	19
Valuation equity swap			(5)	(5)
Stock dividend	(9)			(9)
Revaluation group companies:				
Goodwill			(358)	(358)
Currency exchange rate differences		(2)	(1,909)	(1,911)
Sale TFC businesses			307	307
Other revaluations		78	(20)	58
Currency exchange rate differences			130	130
Other movements			12	12
Balance at December 31, 2003	7,116	2,674	2,311	12,101

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18.6.9 Comprehensive income in accordance with US GAAP

The related tax effects allocated to each component of Other comprehensive income are as follows:

(In million EUR)		2003	2002	2001
Foreign currency translation adjustment	pre-tax	(2,384)	(2,749)	690
	tax			
	net of tax	(2,384)	(2,749)	690
Unrealized gains (losses) during period	pre-tax	1,744	(341)	(870)
	tax	(521)	(304)	(37)
	net of tax	1,223	(645)	(907)
Less: reclassification adjustment	pre-tax	(125)	1,228	460
	tax	132	(35)	(83)
	net of tax	7	1,193	377
Cash flow hedges	pre-tax	39	(43)	
	tax	(13)	15	
	net of tax	26	(28)	
Cumulative effect of adopting SFAS 133	pre-tax			76
	tax			(27)
	net of tax			49
Other comprehensive income (loss)		(1,128)	(2,229)	209

Accumulated other comprehensive income consists of:

	December 31, 2003	December 31, 2002	December 31, 2001
Accumulated foreign currency adjustment	(2,599)	(215)	2,534
Unrealized gains (losses), including cash flow hedges	2,236	1,552	59
Cash flow hedges	0	(28)	
Cumulative effect of adopting SFAS 133			49
Total	(363)	1,309	2,642

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18.6.10 New accounting standards

i. Adoption of new US GAAP accounting policies

SFAS 146

In July 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146 Accounting for Certain Costs Associated with Exit or Disposal Activities , which nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan, as previously required per EITF 94-3. Provisions of SFAS 146 are effective for activities initiated after December 31, 2002. Adoption of this statement had no material impact on AEGON s consolidated financial condition, results of operations, or cash flows.

FIN 45

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . FIN 45 requires certain types of guarantees to be recorded at fair value by the guarantor at inception. This differs from past practice, which generally required recognition of a liability only when a potential loss was deemed to be probable and was reasonably estimable in amount. FIN 45 does not apply to guarantees that are accounted for under existing insurance accounting principles. FIN 45 requires more extensive disclosures of certain other types of guarantees, including certain categories of guarantees, which are already accounted for under specialized accounting principles, such as SFAS 133, even when the likelihood of making any payments under the guarantee is remote. Disclosure requirements were effective for financial statements covering periods ending after December 31, 2002. Initial recognition provisions were applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on AEGON s consolidated financial condition, results of operations or cash flows.

AEGON has various arrangements that require guarantor disclosures per FIN 45:

In the United States AEGON has issued synthetic GICs. A synthetic GIC is generally characterized as an off-balance sheet, fee-based product primarily sold to tax-qualified plans. The plan sponsor retains ownership and control of the plan s invested assets. A synthetic GIC is typically issued with an evergreen maturity and is cancelable by the plan sponsor under certain conditions. AEGON provides book value benefit responsiveness in the event that qualified plan benefit requests exceed designated plan asset cash flows. In certain contracts, AEGON agrees to make advances to meet benefit payment needs and earns a market interest rate on these advances. At December 31, 2003, synthetic GICs have been issued on EUR 31 billion (USD 39 billion) off-balance sheet assets, which represents the maximum amount of potential future payments (undiscounted). Funding requirements to date have been minimal. In addition, the periodically adjusted contract-crediting rate passes through the investment and benefit-responsive experience so management does not anticipate any future funding requirements that would have a material effect on reported financial results. Reserves have been established for these agreements in the amount of EUR 7.5 million (USD 9.5 million) at December 31, 2003.

In the United States AEGON enters into agreements to provide liquidity for multi-seller asset-backed commercial paper conduits and municipal variable rate demand note facilities if there are certain disruptions in the commercial paper or municipal bond markets. These generally provide for AEGON to purchase non-defaulted assets or provide loans secured by assets from the conduit or facility at market interest rates or better. At December 31, 2003, the total notional outstanding was EUR 890 million (USD 1.1 billion), which represents the maximum amount of potential future payments (undiscounted). AEGON earns a fee in exchange for providing liquidity protection and the maturities of the notional amount of the agreements were EUR 742 million (USD 936 million) in 2004, EUR119 million (USD 150 million) in 2005 and EUR 29 million (USD 38 million) in 2019.

AEGON does not anticipate any future funding requirements that would have a material effect on reported financial results.

In 2002, AEGON entered into an agreement in the United States with a fund of funds manager to pay 50% of the excess of the amount of principal protection over the value of the fund of fund assets at the maturity of the principal protection instrument. At December 31, 2003, the notional amount of the principal protection was EUR 271 million (USD 343 million), which represents the maximum amount of potential future payments (undiscounted). AEGON earns a fee in exchange for providing the principal protection and at December 31, 2003, the maturities of the underlying fund portfolios were: 2004, EUR 19 million (USD 24 million); 2005, EUR 21 million (USD 26 million); 2006, EUR 120 million (USD 152 million); 2007, EUR 63 million (USD 80 million); 2008, EUR 41 million (USD 51 million); and thereafter EUR 7 million (USD 9 million). The underlying fund portfolios are restricted as to investment instruments held and are required, upon a decline in value below a formula based threshold, to replace the assets with fixed income instruments in order to minimize the principal protection liability. Accordingly, management does not anticipate any future funding requirements with respect to the principal protection that would have a material effect on reported financial results.

FIN 46

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities . FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51), for certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties (variable interest entities). Variable interest entities (VIEs) are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the entity s expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests. FIN 46 also requires expanded disclosures by the primary beneficiary of a VIE and by an enterprise that holds a significant variable interest in a VIE but is not the primary beneficiary. In December 2003, the FASB issued a revised FIN 46 (FIN 46R), which clarified certain provisions in the original interpretation. Additionally, this interpretation exempts certain entities from its requirements and provides for special effective dates for enterprises that have fully or partially applied FIN 46 as of December 24, 2003. All other entities that are not considered VIEs are evaluated for consolidation under existing accounting rules, ARB 51 and Statement of Financial Accounting Standard No. 94, Consolidation of All Majority-Owned Subsidiaries .

On February 1, 2003, AEGON adopted FIN 46 for VIEs created after January 31, 2003. In September 2003, AEGON acquired an interest in a limited partnership created after February 1, 2003 whose primary activity is investing in private equity investments. As of December 31, 2003, total assets of the limited partnership were EUR 5.1 million. AEGON s investment is EUR 4.0 million, which represents the maximum exposure. Based on the new guidance, AEGON has determined it is the primary beneficiary and consolidated the limited partnership at the time it obtained its interest.

For VIEs created prior to February 1, 2003, AEGON will consolidate those VIEs where it is determined to be the primary beneficiary as of January 1, 2004. Additional liabilities recognized as a result of consolidating VIEs with which AEGON is involved would not represent additional claims on the general assets of AEGON, rather they would represent claims against additional assets recognized as a result of consolidating the VIEs. Conversely, the additional assets that AEGON consolidates per FIN 46R are not available to settle AEGON s general obligations. The additional assets consolidated would be used to settle the additional liabilities recognized as a result of consolidating these VIEs.

The implementation of FIN 46R required AEGON to conduct a review of numerous entities to determine the impact of the adoption and judgment was used in evaluating whether or not a VIE should be consolidated. A cumulative effect of a change in accounting principle will be recognized in 2004 for VIEs created prior to February 1, 2003 that must be consolidated if the carrying value of the assets, liabilities, and non-controlling

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interests of the VIE are different from the amount recognized previously as an interest in the balance sheet. If the consolidated VIE has losses in excess of the non-controlling interests, then these excess losses will be a component of the cumulative effect of a change in accounting principle at initial adoption and as a component of net income in subsequent periods. If there are future earnings, these earnings will first be credited to the parent s shareholders equity to the extent of the losses previously absorbed.

AEGON has identified VIE structures that will be subject to consolidation per FIN 46R. AEGON expects that total assets will increase by EUR 1.3 billion, total liabilities will increase EUR 871 million, and non-controlling interests of EUR 69 million will be reported upon the initial consolidation of VIEs. The consolidation of these VIEs is not expected to have a material impact on AEGON s results of operations or consolidated financial condition.

Summary of VIEs to be consolidated because AEGON is the primary beneficiary:

AEGON owns interests in several limited partnerships in which it is a passive investor. AEGON is the majority holder of passive interests in twelve limited partnerships that were created prior to February 1, 2003. Since AEGON is the majority holder, AEGON has determined that it is the Primary Beneficiary under the new guidance and will be consolidating these entities as of January 1, 2004 and reporting at June 30, 2004. Most of these Limited Partnerships are hedge funds, which employ a variety of investment strategies to both manage risks and earn superior returns over the long term. These investment strategies include short selling, borrowing on margin, arbitrage, and derivatives such as options and interest rate swaps. AEGON uses these funds to diversify its portfolio and to earn a higher rate of return when compared to conventional investments. The total assets of these limited partnerships as of December 31, 2003 are approximately EUR 1.3 billion, with total liabilities of approximately EUR 792 million. The additional assets will be reported as part of AEGON s invested assets. These additional liabilities are current (ie short term) in nature and are non-recourse to AEGON. The net income reported for 2003 by these limited partnerships was approximately EUR 52 million. The asset, liability and net income figures listed above are estimates based on previous financial information provided by the limited partnerships. AEGON is in the process of obtaining more current information. As of December 31, 2003, the limited partnerships are reported in AEGON s balance sheet as an invested asset for the amount of EUR 435 million, which represents the maximum exposure to loss.

AEGON owns debt and equity interests in an entity whose primary activity is participating in a total return swap based on the management of a portfolio of bank loans. In addition to its variable interests, AEGON is the investment manager of the EUR 435 million bank loan portfolio. AEGON owns notes of EUR 69 million and equity of EUR1.7 million. AEGON has determined it is the primary beneficiary under the new guidance and will be consolidating this entity as of January 1, 2004 and reporting at June 30, 2004. As of December 31, 2003, the entity had assets of approximately EUR 90 million and liabilities of approximately EUR 74 million (including the EUR 69 million notes), which are non-recourse to AEGON.

Disclosures for VIEs where there is a significant variable interest:

AEGON receives federal income tax benefits by investing in limited partnerships and limited liability companies (the Properties), which own apartment properties that qualify for low income housing and/or historic tax credits. AEGON receives U.S. Federal income tax credits and deductible losses in recognition of its investments in each of the Properties for a period of ten years. In some cases, AEGON receives distributions from the Properties that are based on a portion of the actual cash flows. The Properties are organized as limited partnerships or limited liability companies. Each Property has a managing general partner or managing member. AEGON is usually the sole limited partner or investor member in each Property, but it is not the general partner or managing member of any Property. In a few situations where AEGON is the general partner the property has been consolidated under existing accounting standards.

AEGON has determined that the Properties are VIEs in accordance with FIN 46 and that AEGON is not the primary beneficiary of any of them. The Properties typically obtain additional financial support by issuing long-term debt in the form of mortgages secured by their real estate holdings, or as unsecured debt. None of the debt has any recourse to the general assets of AEGON. The equity method of accounting is followed for investments

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in the Properties. The isolation of the assets and the liabilities of the Properties from the claimants and assets of the Company, respectively, would continue in the event AEGON commenced consolidation accounting for any of the Properties. The maximum exposure to loss in relation to the Properties is limited to AEGON s investment in the properties. AEGON s relationships with the Properties, taken as a group, are significant because of the VIE nature of the Properties, the size of the group, and the relatively high proportionate Company ownership of each Property s equity. At December 31, 2003 the total assets of the properties were EUR 1.5 billion and total debt and liabilities were EUR 0.6 billion. AEGON s equity investment in the properties was EUR 241 million and outstanding equity commitments totalled EUR 133 million. The maximum exposure to loss is limited to EUR 374 million.

AEGON has also sold institutional products that require disclosure under FIN 46R. Refer to Note 18.1.14 for disclosures related to these products.

AEGON utilizes a special purpose entity for the issuance of asset backed commercial paper (CP) rated A-1/P-1. The current CP program has a EUR 1,171 million (USD 1,480 million) cap and the outstanding CP balance was EUR 356 million (USD 450 million) at December 31, 2003. The funding agreements issued to the CP special purpose entity have a 365-day put option that the issuing insurance companies could utilize to reimburse the banks that provide a liquidity facility backstop.

For the year ending December 31, 2003, AEGON sold approximately EUR 575 million (USD 726 million) of AAA-wrapped municipal debt securities to qualified special purpose entities (QSPEs). The QSPEs held EUR 732 million (USD 924 million) of debt securities at amortized cost as of December 31, 2003. The acquisition of the securities was financed by the QSPEs through issuance of floating rate notes at par value to third parties and issuance of a de minimis residual investment to AEGON. AEGON consolidates these QSPEs for DAP reporting purposes. Activities of the QSPEs include the collection and remittance of cash flows on the securities and notes, payments to third parties for administration and payments of residual income to the Company. AEGON also assumed contingent obligations for early termination events of each QSPE. These shortfall agreements provide for AEGON to reimburse the QSPE liquidity provider for any excess of the notes value over the fair value of the securities when the securities have maintained their investment grade rating. AEGON must also pledge collateral under these shortfall agreements. At December 31, 2003, the fair value of the bonds was in excess of the par value of the floating rate notes and no collateral was pledged. The maximum exposure to loss (undiscounted) resulting from AEGON s involvement with the QSPEs is the December 31, 2003 unpaid principal and accrued interest on the notes of EUR 727 million (USD 919 million) reflected in technical provisions on the balance sheet.

SFAS 149

In April 2003, the FASB issued SFAS 149, Amendment of SFAS 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS No 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. SFAS 149 amends SFAS 133 for decisions made as part of the Derivatives Implementation Group (DIG) process that effectively required amendments to SFAS 133, in connection with other FASB projects dealing with financial instruments. SFAS 149 also clarifies under what circumstances a contract with an initial net investment and purchases and sales of when-issued securities that do not yet exist meet the characteristic of a derivative as discussed in SFAS 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS 149 was effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The provisions of this statement that relate to SFAS 133 DIG issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, the guidance in SFAS 149 related to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS 149 did not have a material impact on AEGON s consolidated financial condition, results of operations, or cash flows.

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SFAS 150

In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). SFAS150 applies to just freestanding instruments and changes the accounting for certain financial instruments that issuers previously classified as equity under previous accounting guidance. These instruments will now be classified as liabilities per SFAS 150. SFAS 150 applies to three classes of freestanding financial obligations of the issuer: 1) mandatorily redeemable equity, 2) a financial instrument not issued in shares that embodies an obligation to repurchase the issuer s equity shares or is indexed to such an obligation, and 3) obligations that (i) can be settled in shares but derive their value predominantly from another underlying instrument or index, (ii) have a fixed value, or (iii) have a value inversely related to the issuer s shares. SFAS 150 was effective for all financial instruments entered into or modified after May 31, 2003, and was effective for AEGON on July 1, 2003. The adoption of SFAS 150 did not have a material impact on AEGON s consolidated financial position.

SFAS 132

In December 2003, FASB issued a revised SFAS 132, Employers Disclosures about Pensions and Other Postretirement Benefits (SFAS 132R). SFAS 132R requires additional disclosures to be made regarding pension plans and other postretirement benefit plans while also retaining many of the disclosures required in the original statements. SFAS 132R does not change the measurement of these plans. The new required disclosures include information describing the plan assets by major categories, target allocations for each plan asset category, investment strategy, description of basis used to determine the overall expected long-term rate of return on plan assets, plan obligations, and cash flows. In addition, the revised statement requires certain disclosures during interim periods. SFAS 132R is generally effective for fiscal years ending after December 31, 2003. The effective date for foreign plans have been deferred until fiscal years ending after June 15, 2004 for most of the new disclosures required in SFAS 132R. AEGON has elected to adopt these disclosure requirements on December 31, 2003 for all pension plans and postretirement benefit plans. See Note 18.6.2, pensions and other postretirement benefits, for the SFAS 132R disclosures.

FAS Staff Position 106-1

In January 2004, FASB issued FASB Staff Position 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-1). FSP 106-1 addresses the accounting and disclosure implications as a result of the enactment on December 2003 of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act provides a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit at least actuarially equivalent to Medicare Part D. FSP 106-1 is effective for fiscal years ending after December 7, 2003. FSP 106-1 allows a one-time election to defer reporting the effects of the Act until authoritative guidance on the accounting for the federal subsidy is issued. AEGON has elected to take this one-time election for deferral of the effective date. Limited disclosure is still required for when the one-time election is taken, which requires the acknowledgement of the existence of the Act and that the postretirement benefit obligations do not reflect the effects of the Act. See note 18.6.2, pensions and other postretirement benefits, for the FSP 106-1 disclosure.

EITF 03-1

In November 2003, the Emerging Issues Task Force (EITF) reached consensus on a disclosure requirement discussed in EITF 03-1 (EITF 03-1), The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . The disclosure requires additional information regarding investments in an unrealized loss position. For each category of investment quantitative disclosure is required of the fair value and the unrealized loss for those investments that have been in a continuous loss position for less than twelve months and those that have been in a continuous loss position for over twelve months. A narrative discussion is also required

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describing the information considered in reaching the conclusion that the unrealized loss does not represent an other-than-temporary impairment. This disclosure is required effective for fiscal years ending after December 15, 2003. AEGON has provided these disclosures in Note 18.6.5 The EITF is expected to discuss the development of the other-than-temporary impairment models at future meetings.

ii. Future adoption of new US GAAP accounting policies

DIG B36

In April 2003, the FASB cleared DIG issue No. B36 Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments (DIG B36). The effective date of the implementation guidance is January 1, 2004. DIG B36 concluded that modified coinsurance (Modco) arrangements, in which funds are withheld by the ceding company and a return on those withheld funds is paid based on the ceding company s return on certain of its investments, contain an embedded derivative feature that is not clearly and closely related to the host contract. Therefore, the embedded derivative feature must be measured at fair value on the balance sheet with changes in fair value reported in income.

As of December 31, 2003, AEGON had reviewed all reinsurance arrangements that it is party to. As a result of these efforts, it has identified several Modco, coinsurance with funds withheld and other similar arrangements which contain embedded derivatives that require separate accounting treatment based on the provisions of DIG B36. AEGON believes that the embedded derivative in each of these cases is a total return swap. As of December 31, 2003, the funds withheld and the amount of Modco on these arrangements were approximately EUR 5.8 billion.

DIG B36 allows companies that have ceded insurance under existing Modco and funds withheld arrangements to reclassify securities related to the embedded derivative from held to maturity or available-for-sale categories to trading category without calling into question the intent to hold other debt securities to maturity. AEGON reclassified certain securities from available-for-sale to trading on January 1, 2004. The fair value of these securities was EUR 2.9 billion at that date.

DIG B36 is also applicable to credit-linked notes that have credit risk exposure that are not clearly and closely related to the economic characteristics and risks of the debt host contract. AEGON has reviewed these contracts and determined these contracts will not have a material impact on AEGON s consolidated financial condition.

Upon the adoption of DIG B36 on January 1, 2004, AEGON expects to record a cumulative effect of an accounting change adjustment loss of approximately EUR 77 million (net of tax of EUR 40 million), which represents the initial impact of recording the embedded derivative. The reclassification of securities related to the embedded derivative from available-for-sale to trading will result in the recognition of approximately EUR 76 million of realized gains (net of tax of EUR 39 million) in earnings that were previously recorded as a component of other comprehensive income as unrealized gains. On an ongoing basis, the changes in the fair value of the embedded derivative and the assets designated as a trading portfolio will flow through net income.

SOP 03-01

In July 2003, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP 03-01), Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. AcSEC has developed the SOP to address the evolution of product designs since the issuance of SFAS 60, Accounting and Reporting by Insurance Enterprises, and SFAS 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments and the need for interpretive guidance to be developed in three areas: separate account presentation and valuation; the accounting recognition given sales inducements (bonus interest, bonus credits, persistency bonuses); and the classification and valuation of certain long-duration contract liabilities. AEGON will adopt SOP 03-01 effective January 1, 2004.

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The most significant accounting implications of the SOP are as follows: (1) reporting and measuring assets and liabilities of separate account products as general account assets and liabilities when specified criteria are not met; (2) reporting and measuring seed money in separate accounts as general account assets based on the insurer s proportionate beneficial interest in the separate account s underlying assets; (3) capitalizing sales inducements that meet specified criteria and amortizing such amounts over the life of the contracts using the same methodology as used for amortizing deferred acquisition costs, but immediately expensing those sales inducements accrued or credited if such criteria are not met; (4) recognizing contract-holder liabilities for: (a) modified guaranteed (market value adjusted) annuities at accreted balances that do not include the then current market value surrender adjustment, (b) two-tier annuities at the lower (non-annuitization) tier account value, (c) persistency bonuses at amounts that are not reduced for expected forfeitures and (d) group pension participating and similar general account pass through contracts that are not accounted for under SFAS 133 at amounts based on the fair value of the assets or index that determines the investment return pass through; (5) establishing an additional liability for guaranteed minimum death benefit (GMDB) features) and for contracts containing a guaranteed minimum annuitization income benefit (GMIB) feature (6) establishing an additional liability for contracts determined to have an insurance benefit feature that is assessed in such a manner that it is expected to result in profits in earlier years and losses in subsequent years.

AEGON has reported its unit-linked life insurance products offered in the UK and the Netherlands in separate account assets and liabilities through December 31, 2003. These separate account assets and liabilities for unit-linked products totaled EUR 30.8 billion at December 31, 2003. Since the unit linked products are not legally insulated from the general account liabilities of AEGON they do not meet the conditions for separate account reporting under SOP 03-01. From January 1, 2004 these separate account assets and liabilities will therefore be reclassified as general account assets and liabilities. We do not expect there to be any material change in the value of either the assets or the liabilities.

AEGON offers enhanced or bonus crediting rates to contract-holders on certain annuity products. Through December 31, 2003, the expense associated with offering these bonuses was already being deferred and amortized in a manner similar to SOP 03-01 and therefore any impact should not be material to results of operations or consolidated financial condition. Based upon a comparison of the requirements of SOP 03-01 to AEGON s established practice of reserving for GMDB and GMIB in variable annuity products, the adoption of the reserving methodology under SOP 03-01 is expected to have a slightly positive impact.

Universal life-type contracts offer certain secondary guarantees, such as a guarantee that the policy will not lapse, even if the account value is reduced to zero, as long as the policyholder makes scheduled premium payments. The assumptions used in the determination of the secondary guarantee liability are consistent with those used in determining estimated gross profits for purposes of amortizing deferred policy acquisition costs. AEGON already provides for a reserve for these products and the cumulative impact on results of operations from changing to SOP 03-01 methodology is not expected to be material.

Universal life-type contracts that assess charges for a mortality benefit feature in a manner that is expected to result in profits in earlier years and losses in subsequent years are now required to establish a reserve in addition to the account balance to recognize the portion of such assessments that compensates the insurance enterprise for benefits to be provided in future periods. The consequence of SOP 03-01 is that a product that fails this test for any future year is required to establish a reserve that would cause mortality margins to be more level over the policy life. The reserve is not limited to the amount of the losses for those years with a mortality loss. AEGON continues to refine the calculation methodology for this reserve but preliminary estimates indicate that it may have a material negative impact on our US GAAP results of operations but should not have a material impact on consolidated financial position. No impact is expected to cash flows. It is important to understand that this reserve does not reflect a change in the total earnings expected from the products but rather only changes the pattern of earnings emergence by reversing previously reported earnings and increasing earnings in future

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periods. Currently there is diversity in industry practice and inconsistent guidance surrounding the application of SOP 03-01 to universal life-type contracts. Industry efforts are underway to request further guidance that may result in an adjustment to the cumulative effect of adopting SOP 03-01 and could impact future results of operations.

18.6.11 Stock-based compensation

SFAS 123, Accounting for Stock-Based Compensation and SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure provide guidance on accounting and reporting for the cost of stock-based compensation. Compensation costs related to stock options are permitted to be recorded under the intrinsic value method provided certain fair value information is disclosed. AEGON has elected to follow the intrinsic value method of Accounting Principles Board Opinion No. 25, Accounting for Stock issued to Employees (APB 25) and related interpretations in accounting for its stock options for purposes of the reconciliation of net income from DAP to US GAAP. Under APB 25, because the exercise price of AEGON s stock options equals the market price of the underlying stock at the date of the grant, no compensation cost is recognized at the grant date.

Had compensation costs for AEGON s stock options granted in 2003, 2002 and 2001 been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, pro forma net income and earnings per share based on US GAAP would have been:

	2003	2002	2001
Net income based on US GAAP as reported	1,531	(2,328)	632
Deduct: total stock-based compensation expense determined under fair value based method for all awards, net of tax	(2)	(1)	(67)
Pro forma net income based on US GAAP	1,529	(2,329)	565
Basic earnings per share (in EUR)			
as reported [1]	0.97	(1.62)	0.45
pro forma [1]	0.97	(1.62)	0.40
Diluted earnings per share (in EUR)			
as reported [1]	0.97	(1.62)	0.44
pro forma [1]	0.97	(1.62)	0.40

1 Adjusted for stock dividends.

The fair value of the stock options at the date of grant was estimated using the binomial option pricing model with the following assumptions for the three years ended December 31, 2003: risk-free interest rates of 3.5%, 5.2% and 4.2% and expected volatility of 60%, 37% and 38%, respectively. The calculation takes into account that the 2003 and 2002 stock appreciation rights vest after two years and the options and rights granted in 2001 cannot be exercised within the first three years.

	2003	2002	2001
Fair value of options[1] granted during the year	2	1	67

[1] excluding stock appreciation rights in 2003, 2002 and 2001, for which the expenses have been included in net income based on US GAAP. In both 2003 and 2002 only employees in Canada were granted stock options.

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18.6.12 Information related to Transamerica Finance Corporation

AEGON has fully and unconditionally guaranteed all of the outstanding public indebtedness of TFC, a wholly owned subsidiary of AEGON. The guarantees were issued on January 14, 2004. The following condensed consolidating financial information presents the condensed balance sheets, condensed income statements and cash flow statements of (i) AEGON, (ii) TFC, (iii) other subsidiaries of, (iv) the eliminations necessary to arrive at the information for AEGON on a consolidated basis and (v) the total. The condensed consolidating balance sheets are shown as of December31, 2003 and 2002 and the condensed consolidating income statements and cash flow statements are shown for the years ended December 31, 2003, 2002 and 2001. The information is prepared in accordance with DAP and accompanied by a reconciliation to US GAAP.

The AEGON NV parent company only column in this condensed consolidating financial information presents investments in subsidiaries under the equity method of accounting. The TFC column in this condensed consolidating financial information presents the individual line items for TFC. Since TFC is included in the consolidated AEGON financial statements following the equity method of accounting, and not consolidated, these individual line item amounts have been eliminated in the elimination column. In the AEGON financial statements, TFC was reported as a component of Transamerica non-insurance, which included additional parent company interest charges. A further description of the adjustments in the reconciliation from DAP to US GAAP can be found in Note 18.5 of the notes to consolidated financial statements.

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The condensed consolidating balance sheets as at December 31, 2003 and 2002 are shown below:

As at December 31, 2003 **Amounts in million EUR**	**AEGON NV**	**TFC**	**Other Subsidiaries**	**Elimi-nations**	**Total**
Investments	201		122,344	(1,351)	121,194
Group companies and participations	16,984		2,200	(16,300)	2,884
Investments for the account of policyholders			100,089		100,089
Other assets	3,203	6,658	13,945	(13,997)	9,809
Total assets	20,388	6,658	238,578	(31,648)	233,976
Shareholders equity	14,132	690	13,448	(14,138)	14,132
Capital securities	1,517		408		1,925
Subordinated (convertible) loans	452				452
	16,101	690	13,856	(14,138)	16,509
Technical provisions			93,871		93,871
Technical provisions with investments for the account of policyholders			100,089		100,089
Other liabilities	4,287	5,968	30,762	(17,510)	23,507
Total shareholders equity and liabilities	20,388	6,658	238,578	(31,648)	233,976
Reconciliation to US GAAP					
Shareholders equity in accordance with DAP	14,132	690	13,448	(14,138)	14,132
Adjustments for:					
Real estate			(817)		(817)
Debt securities - valuation			3,824		3,824
Debt securities - realized gains and (losses)			1,132		1,132
Derivatives	70	4	(315)	2	(239)
Goodwill		173	2,786		2,959
Technical provisions, including DPAC			(1,823)		(1,823)
Deferred taxation, including taxation on US GAAP adjustments	(25)		(1,316)		(1,341)
Balance of other items	6	(20)	23		9
TFC and Other Subsidiaries	3,653			(3,653)	0
Shareholders equity in accordance with US GAAP	17,836	847	16,942	(17,789)	17,836

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As at December 31, 2002 Amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Elimi-nations	Total
Investments	352		132,297	(2,041)	130,608
Group companies and participations	17,825		2,683	(16,952)	3,556
Investments for the account of policyholders			94,728		94,728
Other assets	2,562	8,142	13,095	(14,485)	9,314
Total assets	20,739	8,142	242,803	(33,478)	238,206
Shareholders equity	14,231	875	11,591	(12,466)	14,231
Capital securities	1,517		491		2,008
Subordinated (convertible) loans	616				616
	16,364	875	12,082	(12,466)	16,855
Technical provisions			102,914		102,914
Technical provisions with investments for the account of policyholders			94,728		94,728
Other liabilities	4,375	7,267	33,079	(21,012)	23,709
Total shareholders equity and liabilities	20,739	8,142	242,803	(33,478)	238,206
Reconciliation to US GAAP					
Shareholders equity in accordance with DAP	14,231	875	11,591	(12,466)	14,231
Adjustments for:					
Real estate			(804)		(804)
Debt securities - valuation			3,411		3,411
Debt securities - realized gains and (losses)			245		245
Derivatives	(2)		(748)		(750)
Goodwill		247	3,125		3,372
Technical provisions, including DPAC			(999)		(999)
Deferred taxation, including taxation on US GAAP adjustments	1		(1,141)		(1,140)
Balance of other items		(31)	19		(12)
TFC and Other Subsidiaries	3,324			(3,324)	0
Shareholders equity in accordance with US GAAP	17,554	1,091	14,699	(15,790)	17,554

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The condensed consolidating income statements for the years ended December 31, 2003, 2002 and 2001 are presented below:

Year ended December 31, 2003 **Amounts in million EUR**	**AEGON NV**	**TFC**	**Other Subsidiaries**	**Elimi- nations**	**Total**
Revenues					
Gross premiums	0		19,468		19,468
Investment income	1,830		8,588	(1,811)	8,607
Income from banking activities	0		354		354
TFC revenues		1,242		(1,242)	0
Total revenues	1,830	1,242	28,410	(3,053)	28,429
Benefits and expenses					
Premiums to reinsurers			2,263		2,263
Benefits paid and provided			17,242		17,242
Profit sharing and rebates			171		171
Commissions and expenses for own account	54		5,333		5,387
Interest	(2)		708	(61)	645
Miscellaneous income and expenditure	(16)		590		574
TFC expenses		853		(853)	0
Total benefits and expenses	36	853	26,307	(914)	26,282
Income before tax	1,794	389	2,103	(2,139)	2,147
Corporation tax	(1)	(110)	(461)		(572)
Transamerica non-insurance				218	218
Net income	1,793	279	1,642	(1,921)	1,793
Reconciliation to US GAAP					
Net income determined in accordance with DAP	1,793	279	1,642	(1,921)	1,793
Adjustments for:					
Real estate				(33)	(33)
Debt securities - valuation					
Debt securities - realized gains and (losses)				893	893
Derivatives	68	6		16	90
Goodwill		(36)		(183)	(219)
Technical provisions, including DPAC				(360)	(360)
Realized gains and (losses) on real estate and shares, including reversal of indirect income				(756)	(756)
Deferred taxation, including taxation on US GAAP adjustments	(25)			(80)	(105)
Balance of other items	6	318 [1]		(96)	228
TFC and Other Subsidiaries	(311)			311	0
Net income in accordance with US GAAP	1,531	567	1,642	(2,209)	1,531

[1] Including gain on the sale of TFC s real estate tax services and flood hazard certification businesses.

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Year ended December 31, 2002 Amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Elimi-nations	Total
Revenues					
Gross premiums			21,356		21,356
Investment income	1,537		9,346	(1,511)	9,372
Income from banking activities			416		416
TFC revenues		1,509		(1,509)	0
Total revenues	1,537	1,509	31,118	(3,020)	31,144
Benefits and expenses					
Premiums to reinsurers			2,532		2,532
Benefits paid and provided			19,774		19,774
Profit sharing and rebates			189		189
Commissions and expenses for own account	38		5,174		5,212
Interest	(96)		890	(64)	730
Miscellaneous income and expenditure	(1)		859		858
TFC expenses		1,347		(1,347)	0
Total benefits and expenses	(59)	1,347	29,418	(1,411)	29,295
Income before tax	1,596	162	1,700	(1,609)	1,849
Corporation tax	(49)	(47)	(304)	47	(353)
Transamerica non-insurance				51	51
Net income	1,547	115	1,396	(1,511)	1,547
Reconciliation to US GAAP					
Net income determined in accordance with DAP	1,547	115	1,396	(1,511)	1,547
Adjustments for:					
Real estate			(48)		(48)
Debt securities - valuation					
Debt securities - realized gains and (losses)			8		8
Derivatives	(228)	(5)	265		32
Goodwill		(45)	(1,920)		(1,965)
Technical provisions, including DPAC			(155)		(155)
Realized gains and (losses) on real estate and shares, including reversal of indirect income			(2,251)		(2,251)
Deferred taxation, including taxation on US GAAP adjustments	(32)		207		175
Balance of other items	(30)	(8)	367		329
TFC and Other Subsidiaries	(3,585)			3,585	0
Net income in accordance with US GAAP	(2,328)	57	(2,131)	2,074	(2,328)

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Year ended December 31, 2001 **Amounts in million EUR**	**AEGON NV**	**TFC**	**Other Subsidiaries**	**Elimi- nations**	**Total**
Revenues					
Gross premiums			21,578		21,578
Investment income	2,369		9,901	(2,337)	9,933
Income from banking activities			384		384
TFC revenues		1,923		(1,923)	0
Total revenues	2,369	1,923	31,863	(4,260)	31,895
Benefits and expenses					
Premiums to reinsurers			1,859		1,859
Benefits paid and provided			20,731		20,731
Profit sharing and rebates			248		248
Commissions and expenses for own account	18		4,556		4,574
Interest	(116)		1,041	(63)	862
Miscellaneous income and expenditure	(22)		400		378
TFC expenses		1,781		(1,781)	0
Total benefits and expenses	(120)	1,781	28,835	(1,844)	28,652
Income before tax	2,489	142	3,028	(2,416)	3,243
Corporation tax	(92)	(7)	(826)	7	(918)
Transamerica non-insurance				72	72
Net income	2,397	135	2,202	(2,337)	2,397
Reconciliation to US GAAP					
Net income determined in accordance with DAP	2,397	135	2,202	(2,337)	2,397
Adjustments for:					
Real estate			(61)		(61)
Debt securities - valuation					
Debt securities - realized gains and (losses)			276		276
Derivatives	(92)	4	(148)		(236)
Goodwill		(17)	(479)		(496)
Technical provisions, including DPAC			(96)		(96)
Realized gains and (losses) on real estate and shares, including reversal of indirect income			(1,160)		(1,160)
Deferred taxation, including taxation on US GAAP adjustments	32		386		418
Balance of other items	(84)	(5)	(321)		(410)
TFC and Other Subsidiaries	(1,621)			1,621	0
Net income in accordance with US GAAP	632	117	599	(716)	632

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The condensed consolidating cash flow statements for the years ended December 31, 2003, 2002 and 2001 are presented below:

Year ended December 31, 2003

Amounts in million EUR	**AEGON NV**	**TFC**	**Other Subsidiaries**	**Eliminations**	**Total**
Cash flow from operating activities					
Net income	1,793	279	1,532	(1,811)	1,793
Equity in earnings of group companies	(1,811)			1,811	0
Increase in technical provisions after reinsurance			7,310		7,310
Annuity deposits			18,568		18,568
Annuity repayments			(15,402)		(15,402)
Other	(1,294)	441	283	(441)	(1,011)
	(1,312)	720	12,291	(441)	11,258
Cash flow (used) in investing activities					
Finance receivables originated and purchased		(22,762)		22,762	0
Finance receivables collected and sold		22,545		(22,545)	0
Invested and acquired			(99,989)	646	(99,343)
Disposed and redeemed	570		92,887	(646)	92,811
Change in investments for account of policyholders			(4,310)		(4,310)
Other		353	(1,230)	(353)	(1,230)
	570	136	(12,642)	(136)	(12,072)
Cash flow from financing activities					
Paid-in capital	19				19
Dividend paid	(177)	(606)		606	(177)
Other	926	(255)	104	255	1,030
	768	(861)	104	861	872
Change in liquid assets	26	(5)	(247)	284	58

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Year ended December 31, 2002 Amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Eliminations	Total
Cash flow from operating activities					
Net income	1,547	115	1,396	(1,511)	1,547
Equity in earnings of group companies	(1,511)			1,511	0
Increase in technical provisions after reinsurance			4,250		4,250
Annuity deposits			28,419		28,419
Annuity repayments			(18,269)		(18,269)
Other	937	496	(457)	(496)	480
	973	611	15,339	(496)	16,427
Cash flow (used) in investing activities					
Finance receivables originated and purchased		(26,327)		26,327	0
Finance receivables collected and sold		26,982		(26,982)	0
Invested and acquired	(3,756)		(103,574)	2,050	(105,280)
Disposed and redeemed	1,760		94,366	(2,050)	94,076
Change in investments for account of policyholders			(4,204)		(4,204)
Other		259	(823)	(259)	(823)
	(1,996)	914	(14,235)	(914)	(16,231)
Cash flow from financing activities					
Paid-in capital	2,053				2,053
Dividend paid	(734)	(67)		67	(734)
Other	(330)	(1,460)	(466)	1,460	(796)
	989	(1,527)	(466)	1,527	523
Change in liquid assets	(34)	(2)	638	117	719

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Year ended December 31, 2001 Amounts in million EUR	AEGON NV	TFC	Other Subsidiaries	Eliminations	Total
Cash flow from operating activities					
Net income	2,397	135	2,202	(2,337)	2,397
Equity in earnings of group companies	(2,337)			2,337	0
Increase in technical provisions after reinsurance			9,820		9,820
Annuity deposits			26,381		26,381
Annuity repayments			(19,059)		(19,059)
Other	462	393	(912)	(393)	(450)
	522	528	18,432	(393)	19,089
Cash flow (used) in investing activities					
Finance receivables originated and purchased		(28,454)		28,454	0
Finance receivables collected and sold		29,898		(29,898)	0
Invested and acquired	(2,984)		(97,196)	4,367	(95,813)
Disposed and redeemed	449		87,044	(4,727)	82,766
Change in investments for account of policyholders			(6,961)		(6,961)
Other		841	(1,058)	(841)	(1,058)
	(2,535)	2,285	(18,171)	(2,645)	(21,066)
Cash flow from financing activities					
Issuance of common shares	1,685				1,685
Dividend paid	(544)	(28)	(360)	388	(544)
Other	890	(2,772)	89	2,772	979
	2,031	(2,800)	(271)	3,160	2,120
Change in liquid assets	18	13	(10)	122	143

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18.6.13 AEGON UK s With Profits Funds

The assets and liabilities of the With Profits Funds of Scottish Equitable plc and Guardian Assurance plc are included in AEGON s historical Dutch accounting basis balance sheet at fair value in the line items, investments for the account of policyholders and Technical provisions with investment risk for the account of policyholders. The assets and liabilities are equal in amount since the With Profits Funds are held for the sole benefit of the participating policyholders, however, in respect of Guardian there is a 10% shareholder profit participation in those surpluses distributed to policyholders. The fair value adjustment for investment assets is recorded through the income statement in investment income for the account of policyholders in the technical account life insurance with an offsetting amount recorded in benefits paid and provided. The income statement activity of the With Profits Funds is reported in each of the applicable line items in AEGON s historical Dutch accounting basis income statement with no net income effect for Scottish Equitable plc.

For US GAAP purposes the With Profits Fund is treated similar to a closed block of business. A closed block of business is established for the benefit of a class of policyholders and is designed to give them reasonable assurance that assets will be available to maintain the benefits under their policies.

The Scottish Equitable plc (SE) With Profits Fund and SE Non Profit Fund were established at the time of the demutualization of Scottish Equitable Life Assurance Society. This approach enabled AEGON to acquire an interest in the non-participating business of Scottish Equitable (through the SE Non Profit Fund). The SE Non Profit Fund comprised designated non-participating policy liabilities with appropriate assets being allocated to back the liabilities. The SE With Profits Fund comprised the With Profits policies and other remaining liabilities and all residual assets (i.e., those not allocated to the SE Non Profit Fund).

From January 1, 1994 (when the demutualization arrangements came into force) all new business has been conducted through the SE Non Profit Fund. Through this mechanism, the With Profits business is effectively ring fenced (separated) within the Scottish Equitable Long Term Business Fund. The participating policyholders are entitled to 100% of the investment and other profits emerging in the SE With Profits Fund. AEGON has no interest in the profits of the SE With Profits Fund, although it is entitled to the benefit of fees in respect of investment management and administration. The SE With Profits Fund is managed to ensure that all the invested assets of the SE With Profits Fund will be distributed to participating policyholders over the lifetime of the relevant SE With Profits policies.

The Guardian With Profits Fund operates on a similar basis except that a 10% profit share in that fund is allocated to AEGON.

In common with several other insurance companies, Scottish Equitable Life Assurance Society used to sell guaranteed annuity products in the UK. The only exposure to these guaranteed annuities is within the SE With Profits Fund. Certain policies in the SE With Profits Fund also have a guaranteed minimum rate of return or guaranteed death or other benefits. In law, SE and its whole Long Term Fund (i.e., both the SE With Profits Fund and the SE Non Profit Fund) are liable for all insurance liabilities. Liabilities in the SE With Profits Fund could only impact shareholders in respect of any excess of liabilities over the assets of that Fund. Due to the quality and diversity of the assets in the SE With Profits Fund, the excess of assets over guaranteed benefits, and the ability of management to set bonus rates, AEGON believes that the probability of SE having to contribute to the SE With Profits Fund is remote.

Pursuant to US GAAP the investment assets are classified as trading and accordingly are carried at fair value. Because the With Profits Funds are maintained for the sole benefit of the participating policyholders, the fair value adjustment is offset by an increase to the policyholder liability account. Under this arrangement the policyholders receive all of the benefits from the With Profits Fund and to the extent there is any excess earnings a policyholder dividend liability is established such that the net income result is zero.

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Summarized financial information on a Dutch accounting basis for the With Profits Funds as of and for the year ended December 31, 2003 is as follows (amounts in EUR millions):

	2003	2002
Balance sheet		
Assets:		
Property	94	112
Fixed maturities at fair value	15,698	17,008
Equity securities at fair value	6,439	6,265
Mortgages	2	2
Policy loans	14	24
Other assets	933	866
Total assets	23,180	24,277
Liabilities:		
Technical provisions	21,287	22,757
Funds for Future Appropriation[1]	1,671	1,321
Other liabilities	222	199
Total Liabilities	23,180	24,277

	2003	2002	2001
Income statement			
Revenues and expenses:			
Gross premiums	457	1,061	1,512
Reinsurance	(89)	(72)	(101)
Investment income	2,089	(337)	(367)
Revenue	2,457	651	1,044
Benefits paid and provided	1,448	1,601	1,634
Movement in Fund for Future Appropriations[1]	461	(1,091)	(616)
Change in Technical Provisions	489	69	45
Expenses	59	72	(17)
Benefits and expenses	2,457	651	1,044
Net income	0	0	0

[1] The fund for Future Appropriation represents the excess of assets of the with profit funds over liabilities measured under UK Generally Accepted Accounting Practice.

18.6.14 Derivatives

The Company uses derivative financial instruments, including interest rate and equity futures contracts, interest rate swaps, currency swaps, credit default swaps, interest rate and equity options, interest rate caps and floors, and foreign currency forwards, as a means of hedging exposure to interest rate fluctuation, equity price changes, foreign currency risk and credit risk. A description of the Company s accounting for its hedging of such risks is discussed in the following paragraphs.

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In June 1998, the FASB issued SFAS 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), subsequently amended by SFAS 137 and SFAS 138 and by SFAS 149. AEGON adopted SFAS 133 effective January 1, 2001 for purposes of its reconciliation from DAP to US GAAP. SFAS 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring the Company to recognize all derivative instruments as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (a fair value hedge), (b) a hedge of the exposure to variable cash flows of a recognized asset or liability or of a forecasted transaction (a cash flow hedge), or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available- for-sale security, or a foreign-currency-denominated forecasted transaction.

To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing (a) the particular risk management objective and strategy for the hedge, which includes the item and risk that is being hedged, (b) the derivative that is being used, and (c) how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a retrospective and prospective basis using qualitative and quantitative measures of correlation. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current income during the period of change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (OCI) and reclassified into net income in the same period or periods during which the hedged transaction affects net income. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of designated future cash flows of the hedged item (hedge ineffectiveness), if any, is recognized in current income during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current income during the period of change.

The Company has derivative instruments that were designated and qualified as fair value hedges and cash flow hedges. In addition, the Company had derivative instruments that were economic hedges, but were not designated as hedging instruments under SFAS 133.

Derivative Instruments Designated in Fair Value Hedges

The Company has entered into interest rate swap agreements that effectively convert certain fixed rate assets and liabilities to a floating rate basis (generally to six month or less London Interbank Offered Rate (LIBOR)), in order to more closely match the performance of the assets and liabilities within the Company s portfolio. These agreements involve the payment or receipt of fixed rate interest amounts in exchange for floating rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts. The Company has also entered into cross-currency interest rate swap agreements that effectively convert certain foreign fixed and floating rate assets and liabilities to U.S. Dollar floating rate assets and liabilities. These agreements involve the exchange of the underlying principal amounts.

For the years ended December 31, 2003 and 2002, the Company recognized losses related to the ineffective portion of designated fair value hedges of EUR (15.8) million and EUR (29.5) million, respectively. The Company did not exclude any portion of the derivative when assessing hedge effectiveness.

Derivative Instruments Designated in Cash Flow Hedges

The Company has entered into interest rate swap agreements that effectively convert certain floating rate liabilities to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. The Company has designated these interest rate swap agreements as cash flow hedges.

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The Company uses forward starting interest rate swap agreements to hedge the variability in future cash flows associated with the forecasted purchase of fixed income assets. These agreements reduce the impact of future interest rate changes on the cost of acquiring assets that support certain products. Fair value adjustments for these interest rate swaps are deferred and recorded in OCI until the occurrence of the forecasted transaction at which time the interest rate swaps will be terminated. The derivatives accumulated gain or loss will be amortized into investment income as the acquired asset affects income. A net loss of EUR 28 million (net of EUR 15 million tax) was recorded in OCI in 2002 and a net gain of EUR 26 million (net of EUR 13 million tax) was recorded in 2003.

As of December 31, 2003 and 2002, EUR 0.3 million and EUR 43 million, respectively, in deferred losses related to effective cash flow hedges were recorded in OCI. The maximum term over which the Company is hedging its exposure to the variability of future cash flows is approximately 7 $^{1}/2$ years for hedges converting existing floating-rate assets and liabilities to fixed and 19 years for forecasted hedge transactions The deferred gain (loss) is recognized in income as the purchased asset affects income. If the forecasted asset purchase does not occur or is no longer probable of occurring, cumulative fair value adjustments recorded in OCI will be immediately reclassified into net income. For the year ended December 31, 2003, none of the Company s cash flow hedges have been discontinued because it was probable that the original forecasted transactions would not occur by the end of the originally specified time period documented at inception of the hedging relationship. An immaterial amount of hedge ineffectiveness was recorded in earnings during 2003. The amount of deferred gains (losses) to be reclassified from OCI into earnings during the next twelve months is expected to be immaterial.

Derivative Instruments Not Designated in a Hedging Relationship

The Company also utilizes derivative instruments as a part of its asset/liability risk management practices where the derivatives do not qualify for hedge accounting or the Company has elected to not apply hedge accounting in accordance with SFAS 133. These derivatives include financial futures contracts, interest rate swaps, currency swaps, credit derivatives, financial options, and foreign currency forwards. These derivatives are considered economic hedges of certain exposures related to an existing asset or liability. In all cases, these are in accordance with internal risk guidelines and are closely monitored for continuing compliance. The change in fair value reported in GAAP net income was a loss of EUR 162 million for 2003 and a gain of EUR 172 million for 2002.

Embedded Derivatives

The Company s financial instruments and insurance products are reviewed to determine whether a derivative may be embedded in such instruments or products. The Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the remaining component of the financial instrument or insurance product (that is, the host contract). If it is determined that the embedded derivative is not clearly and closely related to the host contract and that a separate instrument with the same terms would qualify as a derivative, the embedded derivative is separated from the host contract and accounted for as a derivative in accordance with SFAS 133. These derivatives are carried at fair value with fair value changes reflected in net income. Certain embedded derivatives in insurance products required the development of models in order to calculate fair value. An adjustment to re-establish deferred acquisition cost was made, where appropriate.

As a result of adopting SFAS 133, AEGON recorded in its net income for 2001, based on US GAAP, a cumulative effect of an accounting change adjustment loss of EUR 54 million and a gain of EUR 49 million in comprehensive income for the same period. A one-time opportunity to reclassify available for sale investments to trading was allowed without tainting the remaining securities in the available for sale portfolio. The Company elected to take this opportunity to reclass approximately EUR 1.6 billion of available for sale investments to trading as of January 1, 2001.

The total return swaps with Vereniging AEGON are being carried at fair value as a liability with the change in fair value reported in net income.

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18.6.15 Separate accounts (included in Technical provisions with investments for the account of policyholders)

Separate accounts assets and liabilities generally represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. Investment income and investment gains and losses generally accrue directly to such policyholders. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. These assets and liabilities are carried at market value. Deposits, net investment income and realized capital gains and losses on separate accounts assets are reflected on the consolidated income statement offset by a technical provision for policyholders which bear the investment risk under DAP. These items are not reported in the income statement pursuant to US GAAP.

The Company receives investment management fees from the proprietary mutual funds used as investment options for variable annuities and variable life insurance. The Company receives mortality and expense risk fees from the separate accounts. The fees charged to policyholders are included in revenue from fee business and recognized over the period earned pursuant to US GAAP.

18.6.16 Supplemental information on Corporation Tax

The adjustment included in other, net in the reconciliation of the nominal tax charge to the actual tax expense in Note 18.2.12 includes a reduction in the deferred tax liability. In 2002 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 that year. This was partially offset by the establishment of an additional tax provision of USD 129 million, including a valuation allowance of USD 85 million for loss carryforwards.

18.6.17 Subsequent events

On January 2, 2004, AEGON closed the acquisition of a 45% participation in Unirobe, a group of insurance intermediary companies in the Netherlands.

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

On January 28, 2004, AEGON announced that it had reached final agreement on a strategic partnership with Caja de Ahorros del Mediterráneo (CAM), a large savings bank in Spain. The agreement comprises the establishment of a new Spanish holding company, which will be owned 50,01% by CAM and 49,99% by AEGON. CAM will contribute 100% of its insurance subsidiary Mediterráneo Vida to the holding company and provide exclusive access to its customer base through its network of 851 branches. AEGON will contribute EUR 150 million in cash to the holding company and an additional EUR 250 million in high quality financial assets. At the end of the fifth year, the final consideration for the insurance subsidiary will be determined on the basis of achieved performance and according to a pre-agreed formula. After the tenth year, parties have agreed to reassess the legal structure in place and both have the right to unwind the holding company without terminating the partnership. If it is decided to unwind the holding company, CAM and AEGON will own 50 % of the life insurance company directly. The EUR 250 million in high quality financial assets plus accrued investment income will return to AEGON. The remainder of the assets of the holding company will transfer to CAM. The partnership is subject to regulatory approval.

AEGON announced that its Supervisory Board intends to propose to the annual General Meeting of Shareholders to be held on April 22, 2003 to appoint Mr. René Dahan, Mr. Irving W. Bailey II and Mr. Peter Voser as members of the Supervisory Board.

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SCHEDULE I

SUMMARY OF INVESTMENTS

OTHER THAN INVESTMENTS IN RELATED PARTIES

	December 31, 2003		
	Cost[1]	Fair value	Book value
	(In million EUR)		
Shares	5,540	6,545	6,545
Bonds:			
Dutch government	898	931	898
US government	2,945	2,958	2,945
Foreign government	6,730	7,019	6,730
Mortgage backed securities	13,592	13,674	13,592
Other	47,411	50,090	47,411
Sub-total	71,576	74,672	71,576
Private placements:			
Dutch government	98	107	98
US government	0	0	0
Foreign government	702	733	702
Mortgage backed securities	4,800	4,745	4,800
Other	13,110	13,752	13,110
Sub-total	18,710	19,337	18,710
Deposits with credit institutions	1,349		1,349
Loans guaranteed by mortgage[2]	16,762		16,748
Real estate	1,591		2,266
Other	4,000		4,000
Grand total	119,528		121,194

1 Cost is defined as original cost for shares and amortized cost for bonds and private placements.

2 Includes real estate acquired in satisfaction of debt amounting to EUR 49 million at cost and book value.

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SCHEDULE III

SUPPLEMENTARY INSURANCE INFORMATION

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K
Segment (In million EUR)	deferred policy acquisi- tion cost	future policy benefits	unearned premiums	other policy claims and benefits	premium revenue	net investment income	benefits, claims, losses	amortization of deferred policy acquisition costs	other operating expenses	premiums written
2003										
Life insurance	12,447	203,850	NA	NA	16,209	8,042	15,564	1,455	2,419	16,209
Non-life insurance[1]	947	NA	1,681	1,823	3,259	530	1,753	273	883	3,259
2002										
Life insurance	14,089	209,218	NA	NA	17,741	8,964	17,774	1,520	2,028	17,741
Non-life insurance[1]	1,109	NA	1,782	1,840	3,615	631	2,000	328	977	3,615
2001										
Life insurance	15,264	233,317	NA	NA	18,281	9,339	18,906	1,203	2,030	18,281
Non-life insurance[1]	1,202	NA	1,760	1,912	3,297	501	1,825	219	834	3,297

1 Includes Accident and Health insurance

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SCHEDULE IV

REINSURANCE

Column A	Column B	Column C	Column D	Column E	Column F
Life insurance in force (In million EUR)	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
2003	754,535	376,200	395,680	774,015	51.1%
2002	814,074	416,698	430,667	828,043	52.0%
2001	831,263	490,191	417,189	758,261	55.0%

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SCHEDULE V

VALUATION AND QUALIFYING ACCOUNTS

(In million EUR)

	Years ended December 31,		
	2003	2002	2001
Balance January 1	496	451	464
Addition charged to earnings	489	880	804
Amounts written off and other changes	(547)	(835)	(817)
Balance December 31	438	496	451

The provisions can be analyzed as follows:

	December 31,		
	2003	2002	2001
Bonds and other fixed rate securities	194	249	238
Loans guaranteed by mortgages	47	38	53
Other loans	0	32	75
Other financial investments	19	17	34
Receivables	178	160	51
Total	438	496	451

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ITEM 19. EXHIBITS

Index to Exhibits

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1	Articles of Incorporation. [1]	
4.1	Amendment of the 1983 Merger Agreement among AEGON and Vereniging AEGON. [2]	
4.2	Preferred Shares Voting Rights Agreement. [3]	
7	Ratio of earnings to fixed charges.	293
8	List of Group companies.	294
12.1	Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	295
12.2	Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	296
13	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	297
14	Consent of independent auditors with respect to consolidated financial statements.	298

(1) Incorporated by reference to Exhibit 4.1 to Form F-3 (file no. 333-106497) filed with the SEC on June 25, 2003.
(2) Incorporated by reference to Exhibit 4.2 to Form F-3 (file no. 333-106497) filed with the SEC on June 25, 2003.
(3) Incorporated by reference to Exhibit 4.3 to Form F-3 (file no. 333-106497) filed with the SEC on June 25, 2003.

The Company agrees to furnish to the Securities and Exchange Commission upon request copies of instruments with respect to long-term debt of the Company and its consolidated subsidiaries.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

AEGON N.V.

/s/ Joseph B.M. Streppel

Joseph B.M. Streppel
Chief Financial Officer

Date: March 30, 2004